

# **Khâi-MA**

**MUNICIPALITY**



## **FINANCIAL STATEMENTS**

**30 JUNE 2011**

# KHAI-MA MUNICIPALITY

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# KHAI-MA MUNICIPALITY

## FINANCIAL STATEMENTS FOR THE YEAR ENDED 30 JUNE 2011

### GENERAL INFORMATION

#### NATURE OF BUSINESS

Khai Ma Municipality is a local municipality performing the functions as set out in the Constitution. (Act no 105 of 1996)

#### COUNTRY OF ORIGIN AND LEGAL FORM

South African Category B Municipality (Local Municipality) as defined by the Municipal Structures Act. (Act no 117 of 1998)

#### JURISDICTION

The Khai Ma Municipality includes the following areas:

Pofadder  
Pella  
Omseepkans  
Witbank  
Aggeneys

#### MUNICIPAL MANAGER

*Mr. IF Januarie*

#### CHIEF FINANCIAL OFFICER

*Mr. PJ van der Merwe*

#### REGISTERED OFFICE

*P.O. Box 108  
Pofadder  
8890*

#### AUDITORS

The Auditor-General  
Private Bag X5013  
Kimberley  
8300

#### PRINCIPLE BANKERS

The Standard Bank of S.A. Ltd  
Pofadder Branch  
P.O. Box 60  
Pofadder  
8890

#### ATTORNEYS

*Matthews en Associates*

#### RELEVANT LEGISLATION

Municipal Finance Management Act (Act no 56 of 2003)  
Division of Revenue Act  
The Income Tax Act  
Value Added Tax Act  
Municipal Structures Act (Act no 117 of 1998)  
Municipal Systems Act (Act no 32 of 2000)  
Municipal Planning and Performance Management Regulations  
Water Services Act (Act no 108 of 1997)  
Housing Act (Act no 107 of 1997)  
Municipal Property Rates Act (Act no 6 of 2004)  
Electricity Act (Act no 41 of 1987)  
Skills Development Levies Act (Act no 9 of 1999)  
Employment Equity Act (Act no 55 of 1998)  
Unemployment Insurance Act (Act no 30 of 1966)  
Basic Conditions of Employment Act (Act no 75 of 1997)  
Supply Chain Management Regulations, 2005  
Collective Agreements  
Infrastructure Grants  
SALBC Leave Regulations

# KHAI-MA MUNICIPALITY

## MEMBERS OF THE Khai Ma MUNICIPALITY

### WARD

Ward 1  
Ward 2  
Ward 3  
Ward 4  
Proportional  
Proportional  
Proportional

### COUNCILLOR

Councillor A.J. Jonas (Mayor)  
Councillor H.J. Raman  
Councillor P.A. van Heerden  
Councillor S.T. Basson  
Councillor L.H. van Rooi  
Councillor S.M. Magerman  
Councillor S. April

## APPROVAL OF FINANCIAL STATEMENTS

I am responsible for the preparation of these annual financial statements, which are set out on pages 5 to 58 in terms of Section 126 (1) of the Municipal Finance Management Act and which I have signed on behalf of the Municipality.

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*I.F. JANUARIE*

**Municipal Manager**

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**Date**

## FINANCIAL REPORT FOR THE YEAR ENDED 30 JUNE 2011

## 1. REVIEW OF OPERATING RESULTS

The overall operating results for the year ended 30 June 2011 as well as the comparison with the budgeted figures and the actual results of 2010 are summarised as follow:

Description	Budget 2011	Actual 2011	Variance	Variance Actual as % of Budget	Actual 2010
<b>INCOME</b>					
Operating Income	39 417 020	58 931 340	19 514 320	49.51	20 124 232
<b>EXPENDITURE</b>					
Operating Expenditure	(29 927 050)	(40 136 490)	(10 209 440)	(34.11)	(21 844 345)
Profit/(Loss) for the year	9 489 970	18 794 850	9 304 880	98.05	(1 720 113)

Details of operating results per department and classification of income and expenditure is included in the Statement of Performance.

## 2. OPERATING EXPENDITURE

The expenditure per function for the year ended 30 June 2011 as well as the comparison with the budgeted figures and the actual results of 2010 are summarised as follow:

Description	Budget 2011	Actual 2011	Variance	Variance Actual as % of Budget	Actual 2010
Employee related costs	6 305 940	5 769 670	536 270	8.50	5 029 017
Remuneration of Councillors	1 523 510	1 399 009	124 501	8.17	1 421 457
Debt Impairment	1 570 080	1 575 267	(5 187)	(0.33)	2 696 483
of Landfill Site	200 000		200 000	100.00	238 727
Depreciation and Amortisation	1 482 550	1 756 003	(273 453)	(18.44)	1 439 993
Impairments			-	-	3 835
Repairs and Maintenance	1 038 560	1 015 061	23 499	2.26	789 943
Unamortised discount - Interest	451 718	451 718	-	-	498 930
Actuarial losses		474 957	(474 957)	-	
Finance Charges	275 340	447 516	(172 176)	(62.53)	361 319
Bulk Purchases	4 085 000	4 002 992	82 008	2.01	3 163 904
Contracted services	220 000	210 313	9 687	4.40	243 601
General Expenses	22 983 792	12 824 544	10 159 248	44.20	5 957 136
<b>TOTAL</b>	40 136 490	29 927 050	10 209 440	88.24	21 844 345

## 3. OPERATING INCOME

Description	Budget 2011	Actual 2011	Variance	Variance Actual as % of Budget	Actual 2010
Property Rates	1 713 630	1 790 238	76 608	4.47	1 602 143
Government Grants and Subsidies	44 647 640	29 211 620	(15 436 020)	(34.57)	12 056 865
Contributed PPE	500 000	260 382	(239 618)	(47.92)	
Fines	40 000	21 435	(18 565)	(46.41)	25 330
Actuarial Gains			-		
Service Charges	8 569 020	5 723 992	(2 845 028)	(33.20)	4 970 526
Rental of Facilities and Equipment	96 000	118 100	22 100	23.02	105 617
Interest Earned - External Investments	300 000	423 934	123 934	41.31	243 593
Interest Earned - Outstanding Debtors	452 000	617 326	165 326	36.58	754 406
Licences and Permits	16 200	24 265	8 065	49.78	15 731
Agency Services	100 000	104 707	4 707	4.71	101 453
Other Income	2 496 850	1 121 021	(1 375 829)	(55.10)	248 568
<b>TOTAL</b>	58 931 340	39 417 020	(19 514 320)	-57.34	20 124 232

#### 4. EXTERNAL LOANS

Type	30/06/2010	Received	Redeemed	Transferred	30/06/2011
Annuity Loans	921 952	-	(543 958)	-	377 994
Lease Liabilities	41 014	-	(19 123)	-	21 891
<b>TOTAL</b>	962 966	-	(563 081)	-	399 885

#### 5. PAYABLES, PROVISIONS AND UNSPENT CONDITIONAL GRANTS

	2011 R	2010 R
Payables	5 906 688	4 301 648
Provision - Staff Leave	522 392	566 236
Unspent Conditional Grants	6 117 999	8 894 364
	<b>12 547 079</b>	<b>13 762 248</b>

#### 6. CONSUMER DEBTORS

	2011 R	2010 R
Property Rates	1 275 990	1 026 964
Electricity	362 793	382 578
Water	2 866 170	2 207 636
Refuse	1 051 466	824 117
Sewerage	1 136 565	892 821
Other	315 062	1 136 391
Water Recognition	97 198	90 060
Electricity Recognition	43 257	56 801
Sewerage Recognition	1 069	825
	<b>7 149 570</b>	<b>6 618 193</b>
Less: Provision for Bad Debts	(5 222 867)	(3 652 438)
	<b>1 926 703</b>	<b>2 965 755</b>

Increase of consumer debtors due to non-payment off services.

#### 7. CAPITAL EXPENDITURE

The following capital expenditure occurred during the 2010/2011 financial year:

Project	Budget	Expenditure	Variance
Land and Buildings			-
Infrastructure	14 189 360	9 016 961	5 172 399
Community Assets	1 788 997	384 579	1 404 418
Other Assets	824 503	352 304	472 199
<b>TOTAL</b>	<b>16 802 860</b>	<b>9 753 844</b>	<b>7 049 016</b>

#### SOURCE OF FINANCE

External Loans	
Government Grants and Subsidies	9 535 458
Capital Replacement Reserve	
Public Contributions	218 386
<b>TOTAL</b>	<b>9 753 844</b>

**KHAI MA MUNICIPALITY**

**NOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR ENDED 30 JUNE 2011**

**1. ACCOUNTING PRINCIPLES AND POLICIES APPLIED IN THE FINANCIAL STATEMENTS**

**1.1. BASIS OF PREPARATION**

The annual financial statements have been prepared on an accrual basis of accounting and are in accordance with historical cost convention unless specified otherwise.

The annual financial statements have been prepared in accordance with the effective standards of Generally Recognised Accounting Practices (GRAP), including any interpretations and directives issued by the Accounting Standards Board (ASB) in accordance with Section 122(3) of the Municipal Finance Management Act, (Act No 56 of 2003).

The standards are summarised as follows:

<b>GRAP 5</b>	Borrowing Costs
<b>GRAP 6</b>	Consolidated and Separate Financial Statements
<b>GRAP 7</b>	Investments in Associates
<b>GRAP 8</b>	Interests in Joint Ventures
<b>GRAP 101</b>	Agriculture
<b>GRAP 102</b>	Intangible assets
<b>IGRAP 1</b>	Applying the probability test on initial recognition of exchange revenue
<b>IPSAS 20</b>	Related Party Disclosure
<b>IFRS 3 (AC140)</b>	Business Combinations
<b>IFRS 4 (AC141)</b>	Insurance Contracts
<b>IFRS 6 (AC143)</b>	Exploration for and Evaluation of Mineral Resources
<b>IAS 12 (AC102)</b>	Income Taxes
<b>IAS 19 (AC116)</b>	Employee Benefits
<b>SIC – 21 (AC421)</b>	Income Taxes – Recovery of Revaluated Non-Depreciable Assets
<b>SIC – 25 (AC425)</b>	Income Taxes – Changes in the Tax Status on an Entity or its Shareholders
<b>SIC – 29 (AC429)</b>	Service Concessions Arrangements – Disclosures
<b>IFRIC 2 (AC435)</b>	Members' Shares in Co-operative Entities and Similar Instruments
<b>IFRIC 4 (AC437)</b>	Determining whether an Arrangement contains a Lease
<b>IFRIC 9 (AC442)</b>	Reassessment of Embedded Derivatives
<b>IFRIC 12 (AC445)</b>	Service Concession Arrangements
<b>IFRIC 13 (AC446)</b>	Customer Loyalty Programmes
<b>IFRIC 14 (AC447)</b> <b>IAS19</b>	The Limit on a Defined Benefit Asset, Minimum Funding Requirements and their Interaction

**KHAI MA MUNICIPALITY**

**NOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR ENDED 30 JUNE 2011**

<b>IFRIC 15 (AC448)</b>	Agreements for the Construction of Real Estate
<b>IFRIC 16 (AC449)</b>	Hedges in a Net Investment in a Foreign Operation

The Municipality resolved to early adopt the following GRAP standards which have been issued but are not effective yet.

<b>Standard</b>	<b>Description</b>	<b>Effective Date</b>
GRAP 1 (Revised)	Presentation of Financial Statements	1 April 2011
GRAP 2 (Revised)	Cash Flow Statements	1 April 2011
GRAP 3 (Revised)	Accounting Policies, Changes in Accounting Estimates and Errors	1 April 2011
GRAP 4 (Revised)	The Effects of changes in Foreign Exchange Rates	1 April 2011
GRAP 9 (Revised)	Revenue from Exchange Transactions	1 April 2011
GRAP 10 (Revised)	Financial Reporting in Hyperinflationary Economics	1 April 2011
GRAP 11 (Revised)	Construction Contracts	1 April 2011
GRAP 12 (Revised)	Inventories	1 April 2011
GRAP 13 (Revised)	Leases	1 April 2011
GRAP 14 (Revised)	Events after the reporting date	1 April 2011
GRAP 16 (Revised)	Investment Property	1 April 2011
GRAP 17 (Revised)	Property, Plant and Equipment	1 April 2011
GRAP 19 (Revised)	Provisions, Contingent Liabilities and Contingent Assets	1 April 2011
GRAP 21	Impairment of non-cash-generating assets	1 April 2012
GRAP 23	Revenue from Non-Exchange Transactions	1 April 2012
GRAP 26	Impairment of cash-generating assets	1 April 2012
GRAP 100 (Revised)	Non-current Assets held for Sale and Discontinued Operations	1 April 2011
GRAP 104	Financial Instruments	1 April 2012

The Municipality resolved to formulate an accounting policy based on the following GRAP standards which have been issued but are not effective yet.

<b>Standard</b>	<b>Description</b>	<b>Effective Date</b>
GRAP 25	Employee Benefits	Unknown

Accounting policies for material transactions, events or conditions not covered by the above GRAP have been developed in accordance with paragraphs 7, 11 and 12 of GRAP 3.



## **KHAI MA MUNICIPALITY**

### **NOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR ENDED 30 JUNE 2011**

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A summary of the significant accounting policies, which have been consistently applied except where an exemption or transitional provision has been granted, are disclosed below.

Assets, liabilities, revenue and expenses have not been offset except when offsetting is permitted or required by a Standard of GRAP.

The accounting policies applied are consistent with those used to present the previous year's financial statements, unless explicitly stated. The details of any changes in accounting policies are explained in the relevant notes to the Financial Statements.

In terms of Directive 4: "Transitional Provisions for Medium and Low Capacity Municipalities" issued by the Accounting Standards Board the municipality has adopted the transitional provisions for the following GRAP Standards (Refer to correction of error note as transitions was not utilised in the prior year):

GRAP 12 – Inventories

GRAP 16 – Investment Property

GRAP 17 – Property, Plant and Equipment

GRAP 19 – Provisions, Contingent Liabilities and Contingent Assets

GRAP 100 – Non-current Assets Held for Sale and Discontinued Operations

GRAP 102 – Intangible Assets

In terms of Directive 7: "The Application of Deemed Cost on the Adoption of Standards of GRAP" issued by the Accounting Standards Board, the Municipality applied deemed cost to Investment Property, Property, Plant and Equipment and Intangible where the acquisition cost of an asset could not be determined.

#### **1.2. PRESENTATION CURRENCY**

Amounts reflected in the financial statements are in South African Rand and at actual values. No financial values are given in an abbreviated display format. No foreign exchange transactions are included in the statements.

#### **1.3. GOING CONCERN ASSUMPTION**

These annual financial statements have been prepared on a going concern basis.

#### **1.4. COMPARATIVE INFORMATION**

As noted below, GRAP 24 is not effective yet, however budget information required in terms of GRAP 1 paragraph 11 to 14 have been disclosed in the financial statements.

When the presentation or classification of items in the annual financial statements is amended, prior period comparative amounts are restated, unless a standard of GRAP does not require the restatements of comparative information. The nature and reason for the reclassification is disclosed. Where material accounting errors have been identified in the current year, the correction is made retrospectively as far as is practicable, and the prior year comparatives are restated accordingly. Where there has been a change in accounting policy in the current year, the adjustment is made retrospectively as far as is practicable, and the prior year comparatives are restated accordingly.

## **KHAI MA MUNICIPALITY**

### **NOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR ENDED 30 JUNE 2011**

#### **1.5. MATERIALITY**

Material omissions or misstatements of items are material if they could, individually or collectively, influence the decision or assessments of users made on the basis of the financial statements. Materiality depends on the nature or size of the omission or misstatements judged in the surrounding circumstances. The nature or size of the information item, or a combination of both, could be the determining factor. In general, materiality is determined as 1% of total expenditure.

#### **1.6. STANDARDS, AMENDMENTS TO STANDARDS AND INTERPRETATIONS ISSUED BUT NOT YET EFFECTIVE**

The following GRAP standards have been issued but are not yet effective and have not been early adopted by the Municipality:

<b>Standard</b>	<b>Description</b>	<b>Effective Date</b>
<b>GRAP 6 (Revised)</b>	<b>Consolidated and Separate Financial Statements</b> No significant impact is expected as the Municipality does not participate in such business transactions.	<b>Unknown</b>
<b>GRAP 7 (Revised)</b>	<b>Investments in Associate</b> No significant impact is expected as the Municipality does not participate in such business transactions.	<b>Unknown</b>
<b>GRAP 8 (Revised)</b>	<b>Interest in Joint Ventures</b> No significant impact is expected as the Municipality does not participate in such business transactions.	<b>Unknown</b>
<b>GRAP 18</b>	<b>Segment Reporting</b> Information to a large extent is already included in the notes to the annual financial statements.	<b>Unknown</b>
<b>GRAP 24</b>	<b>Presentation of Budget Information in Financial Statements</b> Information to a large extent is already included in the notes to the annual financial statements.	<b>1 April 2012</b>
<b>GRAP 103</b>	<b>Heritage Assets</b> No adjustments will necessary as the Municipality has no heritage assets.	<b>1 April 2012</b>
<b>GRAP 105</b>	<b>Transfer of Functions Between Entities Under Common Control</b> No significant impact is expected as the Municipality does not participate in such business transactions.	<b>Unknown</b>
<b>GRAP 106</b>	<b>Transfer of Functions Between Entities Not Under Common Control</b> No significant impact is expected as the Municipality does not participate in such business transactions.	<b>Unknown</b>
<b>GRAP 107</b>	<b>Mergers</b> No significant impact is expected as the Municipality does not participate in such business transactions.	<b>Unknown</b>

## **KHAI MA MUNICIPALITY**

### **NOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR ENDED 30 JUNE 2011**

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These standards, amendments and interpretations will not have a significant impact on the Municipality once implemented.

#### **1.7. RESERVES**

##### **1.7.1 *Housing Development Fund***

The Housing Development Fund was established in terms of the Housing Act, (Act No. 107 of 1997). Loans from National and Provincial Government, used to finance housing selling schemes undertaken by the Municipality, were extinguished on 1 April 1998 and transferred to the Housing Development Fund. Housing selling schemes, both completed and in progress as at 1 April 1998, were also transferred to the Housing Development Fund. In terms of the Housing Act, all proceeds from housing developments, which include rental income and sale of houses, must be paid into the Housing Development Fund. Monies standing to the credit of the Housing Development Fund can be used only to finance housing developments within the municipal area subject to the approval of the Provincial MEC responsible for housing.

##### **1.7.2 *Revaluation Reserve***

The surplus arising from the revaluation of PPE is credited to a non-distributable reserve. On disposal, the net revaluation surplus is transferred to the accumulated surplus / (deficit) while gains or losses on disposal, based on revaluated amounts, are charged to the Statement of Financial Performance.

An amount equal to the difference between the new (enhanced) annual depreciation expense and the depreciation expenses determined in respect of such items of PPE before the revaluation in question is transferred each year from the revaluation reserve to the Municipality's accumulated surplus.

#### **1.8. LEASES**

##### **1.8.1 *Municipality as Lessee***

Leases are classified as finance leases where substantially all the risks and rewards associated with ownership of an asset are transferred to the Municipality. Property, plant and equipment or intangible assets subject to finance lease agreements are initially recognised at the lower of the asset's fair value and the present value of the minimum lease payments. The corresponding liabilities are initially recognised at the inception of the lease and are measured as the sum of the minimum lease payments due in terms of the lease agreement, discounted for the effect of interest. In discounting the lease payments, the Municipality uses the interest rate that exactly discounts the lease payments and unguaranteed residual value to the fair value of the asset plus any direct costs incurred.

Subsequent to initial recognition, the leased assets are accounted for in accordance with the stated accounting policies applicable to property, plant and equipment or intangibles. The lease liability is reduced by the lease payments, which are allocated between the lease finance cost and the capital repayment using the effective interest rate method. Lease finance costs are expensed when incurred. The accounting policies relating to derecognition of financial instruments are applied to lease payables.

Operating leases are those leases that do not fall within the scope of the above definition. Operating lease rentals are recognised on a straight-line basis over the term of the relevant lease.

## **KHAI MA MUNICIPALITY**

### **NOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR ENDED 30 JUNE 2011**

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#### **1.8.2 Municipality as Lessor**

Under a finance lease, the Municipality recognises the lease payments to be received in terms of a lease agreement as an asset (receivable). The receivable is calculated as the sum of all the minimum lease payments to be received, plus any unguaranteed residual accruing to the Municipality, discounted at the interest rate implicit in the lease. The receivable is reduced by the capital portion of the lease instalments received, with the interest portion being recognised as interest revenue on a time proportionate basis. The accounting policies relating to derecognition and impairment of financial instruments are applied to lease receivables.

Operating leases are those leases that do not fall within the scope of the above definition. Operating lease rentals are recognised on a straight-line basis over the term of the relevant lease.

#### **1.9. UNSPENT CONDITIONAL GOVERNMENT GRANTS AND RECEIPTS**

Unspent conditional grants are financial liabilities that are separately reflected on the Statement of Financial Position. They represent unspent government grants, subsidies and contributions from the public.

This liability always has to be cash-backed. The following provisions are set for the creation and utilisation of this creditor:

- Unspent conditional grants are recognised as a liability when the grant is received.
- When grant conditions are met an amount equal to the conditions met are transferred to revenue in the Statement of Financial Performance.
- The cash which backs up the creditor is invested as individual investment or part of the general investments of the Municipality until it is utilised.
- Interest earned on the investment is treated in accordance with grant conditions. If it is payable to the funder it is recorded as part of the creditor. If it is the Municipality's interest it is recognised as interest earned in the Statement of Financial Performance.

#### **1.10. UNPAID CONDITIONAL GOVERNMENT GRANTS AND RECEIPTS**

Unpaid conditional grants are assets in terms of the Framework that are separately reflected on the Statement of Financial Position. The asset is recognised when the Municipality has an enforceable right to receive the grant or if it is virtually certain that it will be received based on that grant conditions have been met. They represent unpaid government grants, subsidies and contributions from the public.

The following provisions are set for the creation and utilisation of the grant is receivables:

- Unpaid conditional grants are recognised as an asset when the grant is receivable.

#### **1.11. PROVISIONS**

Provisions are recognised when the Municipality has a present legal or constructive obligation as a result of past events, it is possible that an outflow of resource embodying economic benefits will be required to settle the obligation and a reliable estimate of the provision can be made. Provisions are reviewed at reporting date and adjusted to reflect the current best estimate. Where the effect is material, non-current provisions are discounted to their present value using a discount rate that reflects the market's current

## **KHAI MA MUNICIPALITY**

### **NOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR ENDED 30 JUNE 2011**

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assessment of the time value of money, adjusted for risks specific to the liability (for example in the case of obligations for the rehabilitation of land).

The Municipality does not recognise a contingent liability or contingent asset. A contingent liability is disclosed unless the possibility of an outflow of resources embodying economic benefits is remote. A contingent asset is disclosed where an inflow of economic benefits is possible.

Future events that may affect the amount required to settle an obligation are reflected in the amount of a provision where there is sufficient objective evidence that they will occur. Gains from the expected disposal of assets are not taken into account in measuring a provision. Provisions are not recognised for future operating losses. The present obligation under an onerous contract is recognised and measured as a provision.

A provision for restructuring costs is recognised only when the following criteria over and above the recognition criteria of a provision have been met:

- (a) The Municipality has a detailed formal plan for the restructuring identifying at least:
- the business or part of a business concerned;
  - the principal locations affected;
  - the location, function and approximate number of employees who will be compensated for terminating their services;
  - the expenditures that will be undertaken; and
  - when the plan will be implemented.
- (b) The Municipality has raised a valid expectation in those affected that it will carry out the restructuring by starting to implement that plan or announcing its main features to those affected by it.

The amount recognised as a provision shall be the best estimate of the expenditure required to settle the present obligation at the reporting date.

Provisions shall be reviewed at each reporting date and adjusted to reflect the current best estimate. If it is no longer probable that an outflow of resources embodying economic benefits or service potential will be required to settle the obligation, the provision shall be reversed.

#### **1.12. EMPLOYEE BENEFITS**

##### **(a) *Post Retirement Medical obligations***

The Municipality provides post-retirement medical benefits by subsidizing the medical aid contributions of certain retired staff according to the rules of the medical aid funds. Council pays 70% as contribution and the remaining 30% are paid by the members. The entitlement to these benefits is usually conditional on the employee remaining in service up to retirement age and the completion of a minimum service period. The present value of the defined benefit liability is actuarially determined in accordance with GRAP 25 – Employee benefits (using a discount rate applicable to high quality government bonds). The plan is unfunded.

These contributions are charged to the Statement of Financial Performance when employees have rendered the service entitling them to the contribution. The liability was calculated by means of the projected unit credit actuarial valuation method. The liability in respect of current pensioners is regarded as fully accrued, and is therefore

## **KHAI MA MUNICIPALITY**

### **NOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR ENDED 30 JUNE 2011**

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not split between a past (or accrued) and future in-service element. The liability is recognised at the fair value of the obligation. Payments made by the Municipality are set-off against the liability, including notional interest, resulting from the valuation by the actuaries and are charged against the Statement of Financial Performance as employee benefits upon valuation.

Actuarial gains and losses arising from the experience adjustments and changes in actuarial assumptions, is charged or credited to the Statement of Financial Performance in the period that it occurs. These obligations are valued periodically by independent qualified actuaries.

#### **(b) Long Service awards**

Long service awards are provided to employees who achieve certain pre-determined milestones of service within the Municipality. The Municipality's obligation under these plans is valued by independent qualified actuaries periodically and the corresponding liability is raised. Payments are set-off against the liability, including notional interest, resulting from the valuation by the actuaries and are charged against the Statement of Financial Performance as employee benefits upon valuation. Defined benefit plans are post-employment plans other than defined contribution plans.

Actuarial gains and losses arising from the experience adjustments and changes in actuarial assumptions, is charged or credited to the Statement of Financial Performance in the period that it occurs. These obligations are valued periodically by independent qualified actuaries.

#### **(c) Ex gratia Gratuities**

Ex gratia gratuities are provided to employees that were not previously members of a pension fund. The Municipality's obligation under these plans is valued by independent qualified actuaries and the corresponding liability is raised. Payments made by the Municipality are set-off against the liability, including notional interest, resulting from the valuation by the actuaries and are charged against the Statement of Financial Performance as employee benefits upon valuation. Defined benefit plans are post-employment plans other than defined contribution plans.

Actuarial gains and losses arising from the experience adjustments and changes in actuarial assumptions, is charged or credited to the Statement of Financial Performance in the period that it occurs. These obligations are valued periodically by independent qualified actuaries.

#### **(d) Accrued Leave Pay**

Liabilities for annual leave are recognised as they accrue to employees. The liability is based on the total amount of leave days due to employees at year end and also on the total remuneration package of the employee.

#### **(e) Staff Bonuses**

Liabilities for staff bonuses are recognised as they accrue to employees. The liability at year end is based on bonus accrued at year end for each employee.

## **KHAI MA MUNICIPALITY**

### **NOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR ENDED 30 JUNE 2011**

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#### **(f) Performance bonuses**

A provision, in respect of the liability relating to the anticipated costs of performance bonuses payable to Section 57 employees, is maintained. Municipal entities' performance bonus provisions are based on the employment contract stipulations as well as previous performance bonus payment trends.

#### **(g) Pension and retirement fund obligations**

The Municipality provides retirement benefits for its employees and councillors. Defined contribution plans are post-employment benefit plans under which an entity pays fixed contributions into a separate entity (a fund) and will have no legal or constructive obligation to pay further contributions if the fund does not hold sufficient assets to pay all employee benefits relating to employee service in the current and prior periods. The contributions to fund obligations for the payment of retirement benefits are charged against income in the year they become payable. Defined benefit plans are post-employment benefit plans other than defined contribution plans. The defined benefit funds, which are administered on a provincial basis, are actuarially valued tri-annually on the projected unit credit method basis. Deficits identified are recovered through lump sum payments or increased future contributions on a proportional basis to all participating municipalities. The contributions and lump sum payments are charged against income in the year they become payable. Sufficient information is not available to use defined benefit accounting for a multi-employer plan. As a result, defined benefit plans have been accounted for as if they were defined contribution plans.

### **1.13. BORROWING COSTS**

Borrowing costs directly attributable to the acquisition, construction or production of qualifying assets are capitalised to the cost of that asset unless it is inappropriate to do so. The Municipality ceases the capitalisation of borrowing costs when substantially all the activities to prepare the asset for its intended use or sale are complete. It is considered inappropriate to capitalise borrowing costs where the link between the funds borrowed and the capital asset acquired cannot be adequately established. Borrowing costs incurred other than on qualifying assets are recognised as an expense in the Statement of Financial Performance when incurred.

### **1.14. PROPERTY, PLANT AND EQUIPMENT**

#### **1.14.1 Initial Recognition**

Property, plant and equipment are tangible non-current assets (including infrastructure assets) that are held for use in the production or supply of goods or services, rental to others, or for administrative purposes, and are expected to be used during more than one year. Items of property, plant and equipment are initially recognised as assets on acquisition date and are initially recorded at cost. The cost of an item of property, plant and equipment is the purchase price and other costs attributable to bring the asset to the location and condition necessary for it to be capable of operating in the manner intended by the municipality. Trade discounts and rebates are deducted in arriving at the cost. The cost also includes the necessary costs of dismantling and removing the asset and restoring the site on which it is located.

When significant components of an item of property, plant and equipment have different useful lives, they are accounted for as separate items (major components) of property, plant and equipment.

## **KHAI MA MUNICIPALITY**

### **NOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR ENDED 30 JUNE 2011**

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Where an asset is acquired by the Municipality for no or nominal consideration (i.e. a non-exchange transaction), the cost is deemed to be equal to the fair value of that asset on the date acquired.

Where an item of property, plant and equipment is acquired in exchange for a non-monetary asset or monetary assets, or a combination of monetary and non-monetary assets, the assets acquired is initially measured at fair value (the cost). If the acquired item's fair value was not determinable, its deemed cost is the carrying amount of the asset(s) given up.

Major spare parts and servicing equipment qualify as property, plant and equipment when the municipality expects to use them during more than one period. Similarly, if the major spare parts and servicing equipment can be used only in connection with an item of property, plant and equipment, they are accounted for as property, plant and equipment.

#### **1.14.2 Subsequent Measurement – Revaluation Model**

Subsequent to initial recognition, Property, Plant and Equipment are carried at a revalued amount, unless otherwise stated in the relevant Notes to the Financial Statements, being its fair value at the date of revaluation less any subsequent accumulated depreciation and impairment losses. The fair value is, based on periodic, but at least every four years, valuations by external independent valuers at the same time as when municipality's valuation roll is prepared.

An increase in the carrying amount of an asset as a result of a revaluation is credited directly to a revaluation surplus reserve, except to the extent that it reverses a revaluation decrease of the same asset previously recognised in surplus or deficit.

A decrease in the carrying amount of an asset as a result of a revaluation is recognised in surplus or deficit, except to the extent of any credit balance existing in the revaluation surplus in respect of that asset.

#### **1.14.3 Subsequent Measurement – Cost Model**

Subsequent to initial recognition, items of property, plant and equipment are measured at cost less accumulated depreciation and impairment losses. Land is not depreciated as it is deemed to have an indefinite useful life.

Where the Municipality replaces parts of an asset, it derecognises the part of the asset being replaced and capitalises the new component. Subsequent expenditure incurred on an asset is capitalised when it increases the capacity or future economic benefits associated with the asset.

#### **1.14.4 Depreciation and Impairment**

Depreciation is calculated on the depreciable amount, using the straight-line method over the estimated useful lives of the assets. Depreciation of an asset begins when it is available for use, i.e. when it is in the location and condition necessary for it to be capable of operating in the manner intended by management. Components of assets that are significant in relation to the whole asset and that have different useful lives are depreciated separately. The estimated useful lives, residual values and depreciation method are reviewed at each year end, with the effect of any changes in estimate accounted for on a prospective basis. The annual depreciation rates are based on the following estimated useful lives



## KHAI MA MUNICIPALITY

### NOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR ENDED 30 JUNE 2011

	Years		Years
<b><u>Infrastructure</u></b>		<b><u>Other</u></b>	
Roads and Paving	4-50	Buildings	20-50
Pedestrian Malls	30	Specialist vehicles	5-15
Electricity	5-50	Other vehicles	5-15
Water	5-60	Office equipment	3-10
Sewerage	5-60	Furniture and fittings	5-20
Housing	30	Watercraft	5-15
		Bins and containers	5-10
<b><u>Community</u></b>		Specialised plant and	
Buildings	5-50	Equipment	5-30
Recreational Facilities	15-50	Other plant and	
Security	3-15	Equipment	5-10
Halls	20-50	Landfill sites	5-30
Libraries	20-50	Quarries	25
Parks and gardens	15-20	Emergency equipment	5-15
Other assets	5-30	Computer equipment	3-10
<b><u>Finance lease assets</u></b>			
Office equipment	3-10		
Other assets	5-10		

Property, plant and equipment are reviewed at each reporting date for any indication of impairment. If any such indication exists, the asset's recoverable amount is estimated. The impairment charged to the Statement of Financial Performance is the excess of the carrying value over the recoverable amount.

An impairment is reversed only to the extent that the asset's carrying amount does not exceed the carrying amount that would have been determined had no impairment been recognised. A reversal of an impairment is recognised in the Statement of Financial Performance.

#### **1.14.5 De-recognition**

Items of property, plant and equipment are derecognised when the asset is disposed or when there are no further economic benefits or service potential expected from the use of the asset. The gain or loss arising on the disposal or retirement of an item of property, plant and equipment is determined as the difference between the sales proceeds and the carrying value and is recognised in the Statement of Financial Performance.

#### **1.14.6 Land and buildings and Other Assets – application of deemed cost (Directive 7)**

The Municipality opted to take advantage of the transitional provisions as contained in Directive 7 of the Accounting Standards Board, issued in December 2009. The Municipality applied deemed cost where the acquisition cost of an asset could not be determined. For Land and Buildings the fair value as determined by a valuator was used in order to determine the deemed cost as on 1 July 2008. For Other Assets the depreciation cost method was used to establish the deemed cost as on 1 July 2008.

**NOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR ENDED 30 JUNE 2011**

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**1.15. INTANGIBLE ASSETS**

**1.15.1 Initial Recognition**

An intangible asset is an identifiable non-monetary asset without physical substance.

An asset meets the identifiability criterion in the definition of an intangible asset when it:

- is separable, i.e. is capable of being separated or divided from the entity and sold, transferred, licensed, rented or exchanged, either individually or together with a related contract, asset or liability; or
- arises from contractual rights (including rights arising from binding arrangements) or other legal rights (excluding rights granted by statute), regardless of whether those rights are transferable or separable from the entity or from other rights and obligations.

The Municipality recognises an intangible asset in its Statement of Financial Position only when it is probable that the expected future economic benefits or service potential that are attributable to the asset will flow to the Municipality and the cost or fair value of the asset can be measured reliably.

Internally generated intangible assets are subject to strict recognition criteria before they are capitalised. Research expenditure is never capitalised, while development expenditure is only capitalised to the extent that:

- the Municipality intends to complete the intangible asset for use or sale;
- it is technically feasible to complete the intangible asset;
- the Municipality has the resources to complete the project; and
- it is probable that the municipality will receive future economic benefits or service potential.

Intangible assets are initially recognised at cost.

Where an intangible asset is acquired in exchange for a non-monetary asset or monetary assets, or a combination of monetary and non-monetary assets, the asset acquired is initially measured at fair value (the cost). If the acquired item's fair value was not determinable, it's deemed cost is the carrying amount of the asset(s) given up.

**1.15.2 Subsequent Measurement – Cost Model**

Intangible assets are subsequently carried at cost less accumulated amortisation and impairments. The cost of an intangible asset is amortised over the useful life where that useful life is finite. Where the useful life is indefinite, the asset is not amortised but is subject to an annual impairment test.

**1.15.3 Amortisation and Impairment**

Amortisation is charged so as to write off the cost or valuation of intangible assets over their estimated useful lives using the straight line method. Amortisation of an asset begins when it is available for use, i.e. when it is in the condition necessary for it to be capable of operating in the manner intended by management. Components of assets that are significant in relation to the whole asset and that have different useful lives are amortised separately. The estimated useful lives, residual values and amortisation method are reviewed at each year end, with the effect of any changes in estimate accounted for on a prospective basis. The annual amortisation rates are based on the following estimated useful lives:

## **KHAI MA MUNICIPALITY**

### **NOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR ENDED 30 JUNE 2011**

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<b><u>Intangible Assets</u></b>	<b><u>Years</u></b>
Computer Software	3-10

#### **1.15.4 De-recognition**

Intangible assets are derecognised when the asset is disposed or when there are no further economic benefits or service potential expected from the use of the asset. The gain or loss arising on the disposal or retirement of an intangible asset is determined as the difference between the sales proceeds and the carrying value and is recognised in the Statement of Financial Performance.

#### **1.15.5 Application of deemed cost (Directive 7)**

The Municipality opted to take advantage of the transitional provisions as contained in Directive 7 of the Accounting Standards Board, issued in December 2009. The Municipality applied deemed cost where the acquisition cost of an asset could not be determined. For Intangible Assets the depreciation cost method was used to establish the deemed cost as on 1 July 2008.

### **1.16. INVESTMENT PROPERTY**

#### **1.16.1 Initial Recognition**

Investment property shall be recognised as an asset when, and only when:

- it is probable that the future economic benefits or service potential that are associated with the investment property will flow to the entity, and
- the cost or fair value of the investment property can be measured reliably.

Investment property includes property (land or a building, or part of a building, or both land and buildings held under a finance lease) held to earn rentals and/or for capital appreciation, rather than held to meet service delivery objectives, the production or supply of goods or services, or the sale of an asset in the ordinary course of operations. Property with a currently undetermined use, is also classified as investment property.

At initial recognition, the Municipality measures investment property at cost including transaction costs once it meets the definition of investment property. However, where an investment property was acquired through a non-exchange transaction (i.e. where it acquired the investment property for no or a nominal value), its cost is its fair value as at the date of acquisition.

Transfers are made to or from investment property only when there is a change in use. For a transfer from investment property to owner occupied property, the deemed cost for subsequent accounting is the fair value at the date of change in use. If owner occupied property becomes an investment property, the Municipality accounts for such property in accordance with the policy stated under property, plant and equipment up to the date of change in use. The cost of self-constructed investment property is the cost at date of completion.

#### **1.16.2 Subsequent Measurement – Cost Model**

Subsequent to initial recognition, items of investment property are measured at cost less accumulated depreciation and impairment losses. Land is not depreciated as it is deemed to have an indefinite useful life.

## **KHAI MA MUNICIPALITY**

### **NOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR ENDED 30 JUNE 2011**

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#### **1.16.3 Depreciation and Impairment**

Depreciation is calculated on the depreciable amount, using the straight-line method over the estimated useful lives of the assets. Depreciation of an asset begins when it is available for use, i.e. when it is in the location and condition necessary for it to be capable of operating in the manner intended by management. Components of assets that are significant in relation to the whole asset and that have different useful lives are depreciated separately. The estimated useful lives, residual values and depreciation method are reviewed at each year end, with the effect of any changes in estimate accounted for on a prospective basis.

<u>Investment Property</u>	<u>Years</u>
Buildings	30

#### **1.16.4 De-recognition**

Investment property is derecognised when it is disposed or when there are no further economic benefits expected from the use of the investment property. The gain or loss arising on the disposal or retirement of an item of investment property is determined as the difference between the sales proceeds and the carrying value and is recognised in the Statement of Financial Performance.

#### **1.16.5 Application of deemed cost - Directive 7**

The Municipality opted to take advantage of the transitional provisions as contained in Directive 7 of the Accounting Standards Board, issued in December 2009. The Municipality applied deemed cost where the acquisition cost of an asset could not be determined. The fair value as determined by a valuator was used in order to determine the deemed cost as on 1 July 2008.

### **1.17. NON-CURRENT ASSETS HELD FOR SALE**

#### **1.17.1 Initial Recognition**

Non-current assets and disposal groups are classified as held for sale if their carrying amount will be recovered through a sale transaction rather than through continuing use. This condition is regarded as met only when the sale is highly probable and the asset (or disposal group) is available for immediate sale in its present condition. Management must be committed to the sale, which should be expected to qualify for recognition as a completed sale within one year from the date of classification.

#### **1.17.2 Subsequent Measurement**

Non-current assets held for sale (or disposal group) are measured at the lower of carrying amount and fair value less costs to sell.

A non-current asset is not depreciated (or amortised) while it is classified as held for sale, or while it is part of a disposal group classified as held for sale.

Interest and other expenses attributable to the liabilities of a disposal group classified as held for sale are recognised in surplus or deficit.

**NOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR ENDED 30 JUNE 2011**

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**1.18. IMPAIRMENT OF NON-FINANCIAL ASSETS**

**1.18.1 *Cash-generating assets***

Cash-generating assets are assets held with the primary objective of generating a commercial return.

The Municipality assesses at each reporting date whether there is an indication that an asset may be impaired. If any indication exists, or when annual impairment testing for an asset is required, the municipality estimates the asset's recoverable amount.

An asset's recoverable amount is the higher of an asset's or cash-generating unit's (CGU) fair value less costs to sell and its value in use and is determined for an individual asset, unless the asset does not generate cash inflows that are largely independent of those from other assets or groups of assets. Where the carrying amount of an asset or CGU exceeds its recoverable amount, the asset is considered impaired and is written down to its recoverable amount. In assessing value in use, the estimated future cash flows are discounted to their present value using a pre-tax discount rate that reflects current market assessments of the time value of money and the risks specific to the asset. In determining fair value less costs to sell, an appropriate valuation model is used. Impairment losses are recognised in the Statement of Financial Performance in those expense categories consistent with the function of the impaired asset.

An assessment is made at each reporting date as to whether there is any indication that previously recognised impairment losses may no longer exist or may have decreased. If such indication exists, the Municipality estimates the asset's or cash-generating unit's recoverable amount. A previously recognised impairment loss is reversed only if there has been a change in the assumptions used to determine the asset's recoverable amount since the last impairment loss was recognised. The reversal is limited so that the carrying amount of the asset does not exceed its recoverable amount, nor exceed the carrying amount that would have been determined, net of depreciation, had no impairment loss been recognised for the asset in prior years. Such reversal is recognised in the Statement of Financial Performance.

**1.18.2 *Non-cash-generating assets***

Non-cash-generating assets are assets other than cash-generating assets.

The Municipality assesses at each reporting date whether there is an indication that an asset may be impaired. If any indication exists, or when annual impairment testing for an asset is required, the Municipality estimates the asset's recoverable service amount.

An asset's recoverable service amount is the higher of a non-cash-generating asset's fair value less costs to sell and its value in use. If the recoverable service amount of an asset is less than its carrying amount, the carrying amount of the asset is reduced to its recoverable service amount. That reduction is an impairment loss recorded in the Statement of Financial Performance.

The value in use of a non-cash-generating asset is the present value of the asset's remaining service potential. The present value of the remaining service potential of the asset is determined using any one of the following approaches:

- *depreciated replacement cost approach* - the present value of the remaining service potential of an asset is determined as the depreciated replacement cost of the asset.

## KHAI MA MUNICIPALITY

### NOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR ENDED 30 JUNE 2011

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The replacement cost of an asset is the cost to replace the asset's gross service potential. This cost is depreciated to reflect the asset in its used condition. An asset may be replaced either through reproduction (replication) of the existing asset or through replacement of its gross service potential. The depreciated replacement cost is measured as the reproduction or replacement cost of the asset, whichever is lower, less accumulated depreciation calculated on the basis of such cost, to reflect the already consumed or expired service potential of the asset.

- *restoration cost approach* - the cost of restoring the service potential of an asset to its pre-impaired level. Under this approach, the present value of the remaining service potential of the asset is determined by subtracting the estimated restoration cost of the asset from the current cost of replacing the remaining service potential of the asset before impairment. The latter cost is usually determined as the depreciated reproduction or replacement cost of the asset, whichever is lower.
- *service unit approach* - the present value of the remaining service potential of the asset is determined by reducing the current cost of the remaining service potential of the asset before impairment, to conform with the reduced number of service units expected from the asset in its impaired state. As in the restoration cost approach, the current cost of replacing the remaining service potential of the asset before impairment is usually determined as the depreciated reproduction or replacement cost of the asset before impairment, whichever is lower.

Fair value less costs to sell is the amount obtainable from the sale of an asset in an arm's length transaction between knowledgeable, willing parties, less the costs of disposal.

The Municipality assesses at each reporting date whether there is any indication that an impairment loss recognised in prior periods for an asset may no longer exist or may have decreased. If any such indication exists, the Municipality estimates the recoverable service amount of that asset.

An impairment loss recognised in prior periods for an asset is reversed if there has been a change in the estimates used to determine the asset's recoverable service amount since the last impairment loss was recognised. If this is the case, the carrying amount of the asset is increased to its recoverable service amount. The increased carrying amount of an asset attributable to a reversal of an impairment loss does not exceed the carrying amount that would have been determined (net of depreciation or amortisation) had no impairment loss been recognised for the asset in prior periods. Such a reversal of an impairment loss is recognised in the Statement of Financial Performance.

#### **1.19. NON CURRENT INVESTMENTS**

Financial instruments, which include, investments in municipal entities and fixed deposits invested in registered commercial banks, are stated at amortised cost.

Where investments have been impaired, the carrying value is adjusted by the impairment loss, which is recognised as an expense in the period that the impairment is identified.

On disposal of an investment, the difference between the net disposal proceeds and the carrying amount is charged or credited to the Statement of Financial Performance.

The carrying amounts of such investments are reduced to recognise any decline, other than a temporary decline, in the value of individual investments.

**NOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR ENDED 30 JUNE 2011**

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**1.20. INVENTORIES**

**1.20.1 Initial Recognition**

Inventories comprise current assets held for sale, consumption or distribution during the ordinary course of business. Inventories are initially recognised at cost. Cost generally refers to the purchase price, plus non-recoverable taxes, transport costs and any other costs in bringing the inventories to their current location and condition. Where inventory is manufactured, constructed or produced, the cost includes the cost of labour, materials and overheads used during the manufacturing process.

Where inventory is acquired by the Municipality for no or nominal consideration (i.e. a non-exchange transaction), the cost is deemed to be equal to the fair value of the item on the date acquired.

**1.20.2 Subsequent Measurement**

Inventories, consisting of consumable stores, raw materials, work-in-progress and finished goods, are valued at the lower of cost and net realisable value unless they are to be distributed at no or nominal charge, in which case they are measured at the lower of cost and current replacement cost. Redundant and slow-moving inventories are identified and written down in this way. Differences arising on the valuation of inventory are recognised in the Statement of Financial Performance in the year in which they arose. The amount of any reversal of any write-down of inventories arising from an increase in net realisable value or current replacement cost is recognised as a reduction in the amount of inventories recognised as an expense in the period in which the reversal occurs.

The carrying amount of inventories is recognised as an expense in the period that the inventory was sold, distributed, written off or consumed, unless that cost qualifies for capitalisation to the cost of another asset.

In general, the basis of allocating cost to inventory items is the weighted average method.

**1.21. FINANCIAL INSTRUMENTS**

Financial instruments recognised on the balance sheet include trade and other receivables, cash and cash equivalents, annuity loans and trade and other payables.

**1.21.1 Initial Recognition**

Financial instruments are initially recognised when the municipality becomes a party to the contractual provisions of the instrument at fair value plus, in the case of a financial asset or financial liability not at fair value through profit or loss, transaction costs that are directly attributable to the acquisition or issue of the financial asset or financial liability

**1.21.2 Subsequent Measurement**

Financial Assets are categorised according to their nature as either financial assets at fair value through profit or loss, held-to-maturity, loans and receivables, or available for sale. Financial Liabilities are categorised as either at fair value through profit or loss or financial liabilities carried at amortised cost ("other"). The subsequent measurement of financial assets and liabilities depends on this categorisation and, in the absence of an approved GRAP Standard on Financial Instruments, is in accordance with IAS 39.

## **KHAI MA MUNICIPALITY**

### **NOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR ENDED 30 JUNE 2011**

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#### **1.21.2.2 Trade and Other Receivables**

Trade and other receivables are classified as loans and receivables, and are subsequently measured amortised cost using the effective interest rate method.

For amounts due from debtors carried at amortised cost, the municipality first assesses whether objective evidence of impairment exists individually for financial assets that are individually significant, or collectively for financial assets that are not individually significant. Objective evidence of impairment includes significant financial difficulties of the debtor, probability that the debtor will enter bankruptcy or financial reorganisation and default or delinquency in payments (more than 90 days overdue). If the municipality determines that no objective evidence of impairment exists for an individually assessed financial asset, whether significant or not, it includes the asset in a group of financial assets with similar credit risk characteristics and collectively assesses them for impairment. Assets that are individually assessed for impairment and for which an impairment loss is, or continues to be, recognised are not included in a collective assessment of impairment.

If there is objective evidence that an impairment loss has been incurred, the amount of the loss is measured as the difference between the asset's carrying amount and the present value of estimated future cash flows (excluding future expected credit losses that have not yet been incurred). The carrying amount of the asset is reduced through the use of an allowance account and the amount of the loss is recognised in the Statement of Financial Performance. Interest income continues to be accrued on the reduced carrying amount based on the original effective interest rate of the asset. Loans together with the associated allowance are written off when there is no realistic prospect of future recovery and all collateral has been realised or has been transferred to the municipality. If, in a subsequent year, the amount of the estimated impairment loss increases or decreases because of an event occurring after the impairment was recognised, the previously recognised impairment loss is increased or reduced by adjusting the allowance account. If a future write-off is later recovered, the recovery is recognised in the income statement.

The present value of the estimated future cash flows is discounted at the financial asset's original effective interest rate, if material. If a loan has a variable interest rate, the discount rate for measuring any impairment loss is the current effective interest rate.

#### **1.21.2.3 Trade Payables and Borrowings**

Financial liabilities consist of trade payables and borrowings. They are categorised as financial liabilities held at amortised cost, are initially recognised at fair value and subsequently measured at amortised cost using an effective interest rate, which is the initial carrying amount, less repayments, plus interest.

#### **1.21.2.4 Cash and Cash Equivalents**

Cash includes cash on hand (including petty cash) and cash with banks. Cash equivalents are short-term highly liquid investments, readily convertible into known amounts of cash that are held with registered banking institutions with maturities of three months or less and are subject to an insignificant risk of change in value. For the purposes of the cash flow statement, cash and cash equivalents comprise cash on hand, highly liquid deposits and net of bank overdrafts. The municipality categorises cash and cash equivalents as financial assets: loans and receivables.



## **KHAI MA MUNICIPALITY**

### **NOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR ENDED 30 JUNE 2011**

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Bank overdrafts are recorded based on the facility utilised. Finance charges on bank overdraft are expensed as incurred. Amounts owing in respect of bank overdrafts are categorised as financial liabilities: other financial liabilities carried at amortised cost.

#### **1.21.3 De-recognition of Financial Instruments**

##### **1.21.3.1 Financial Assets**

A financial asset (or, where applicable a part of a financial asset or part of a group of similar financial assets) is derecognised when:

- the rights to receive cash flows from the asset have expired; or
- the municipality has transferred its rights to receive cash flows from the asset or has assumed an obligation to pay the received cash flows in full without material delay to a third party under a 'pass-through' arrangement; and either (a) the municipality has transferred substantially all the risks and rewards of the asset, or (b) the municipality has neither transferred nor retained substantially all the risks and rewards of the asset, but has transferred control of the asset.

When the municipality has transferred its rights to receive cash flows from an asset or has entered into a pass-through arrangement, and has neither transferred nor retained substantially all the risks and rewards of the asset nor transferred control of the asset, a new asset is recognised to the extent of the municipality's continuing involvement in the asset.

Continuing involvement that takes the form of a guarantee over the transferred asset is measured at the lower of the original carrying amount of the asset and the maximum amount of consideration that the municipality could be required to repay.

When continuing involvement takes the form of a written and/or purchased option (including a cash settled option or similar provision) on the transferred asset, the extent of the municipality's continuing involvement is the amount of the transferred asset that the municipality may repurchase, except that in the case of a written put option (including a cash settled option or similar provision) on an asset measured at fair value, the extent of the municipality's continuing involvement is limited to the lower of the fair value of the transferred asset and the option exercise price.

##### **1.21.3.2 Financial Liabilities**

A financial liability is derecognised when the obligation under the liability is discharged or cancelled or expires.

When an existing financial liability is replaced by another from the same lender on substantially different terms, or the terms of an existing liability are substantially modified, such an exchange or modification is treated as a de-recognition of the original liability and the recognition of a new liability, and the difference in the respective carrying amounts is recognised in the Statement of Financial Performance.

#### **1.21.4 Offsetting of Financial Instruments**

Financial assets and financial liabilities are offset and the net amount reported in the Statement of Financial Position if, and only if, there is a currently enforceable legal right to offset the recognised amounts and there is an intention to settle on a net basis, or to realise the assets and settle the liabilities simultaneously.

## **KHAI MA MUNICIPALITY**

### **NOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR ENDED 30 JUNE 2011**

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#### **1.22. REVENUE**

##### **1.22.1 Revenue from Non-Exchange Transactions**

Revenue from non-exchange transactions refers to transactions where the Municipality received revenue from another entity without directly giving approximately equal value in exchange. Revenue from non-exchange transactions is generally recognised to the extent that the related receipt or receivable qualifies for recognition as an asset and there is no liability to repay the amount.

Revenue from property rates is recognised when the legal entitlement to this revenue arises. Collection charges are recognised when such amounts are legally enforceable. Penalty interest on unpaid rates is recognised on a time proportionate basis as an exchange transaction.

Fine Revenue constitutes both spot fines and summonses. Revenue from spot fines and summonses is recognised based on an estimation of future collections of fines issued based on prior period trends and collection percentages.

Revenue from public contributions and donations is recognised when all conditions associated with the contribution have been met or where the contribution is to finance property, plant and equipment, when such items of property, plant and equipment qualifies for recognition and first becomes available for use by the Municipality. Where public contributions have been received but the Municipality has not met the related conditions, it is recognised as an unspent public contribution (liability).

Revenue from third parties i.e. insurance payments for assets impaired, are recognised when it can be measured reliably and is not being offset against the related expenses of repairs or renewals of the impaired assets.

Contributed property, plant and equipment is recognised when such items of property, plant and equipment qualifies for recognition and become available for use by the Municipality.

Revenue from the recovery of unauthorised, irregular, fruitless and wasteful expenditure is based on legislated procedures, including those set out in the Municipal Finance Management Act (Act No. 56 of 2003) and is recognised when the recovery thereof from the responsible councillors or officials is virtually certain.

Revenue shall be measured at the fair value of the consideration received or receivable.

When, as a result of a non-exchange transaction, a Municipality recognises an asset, it also recognises revenue equivalent to the amount of the asset measured at its fair value as at the date of acquisition, unless it is also required to recognise a liability. Where a liability is required to be recognised it will be measured as the best estimate of the amount required to settle the present obligation at the reporting date, and the amount of the increase in net assets, if any, recognised as revenue. When a liability is subsequently reduced, because the taxable event occurs or a condition is satisfied, the amount of the reduction in the liability will be recognised as revenue.

##### **1.22.2 Revenue from Exchange Transactions**

Revenue from exchange transactions refers to revenue that accrued to the Municipality directly in return for services rendered/ goods sold, the value of which approximates the consideration received or receivable.

## ***KHAI MA MUNICIPALITY***

### **NOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR ENDED 30 JUNE 2011**

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Service charges relating to electricity and water are based on consumption and a basic charge as per Council resolution. Meters are read on a monthly basis and are recognised as revenue when invoiced. Provisional estimates of consumption are made monthly when meter readings have not been performed. The provisional estimates of consumption are recognised as revenue when invoiced. Adjustments to provisional estimates of consumption are made in the invoicing period in which meters have been read. These adjustments are recognised as revenue in the invoicing period.

Revenue from the sale of electricity prepaid meter cards is recognised at the point of sale.

Service charges relating to refuse removal are recognised on a monthly basis in arrears by applying the approved tariff to each property that has improvements. Tariffs are determined per category of property usage, and are levied monthly based on the recorded number of refuse points per property.

Service charges from sewerage are based on a basic charge as per Council resolution.

Interest revenue is recognised using the effective interest rate method.

Revenue from the rental of facilities and equipment is recognised on a straight-line basis over the term of the lease agreement.

Dividends are recognised on the date that the Municipality becomes entitled to receive the dividend.

Revenue arising from the application of the approved tariff of charges is recognised when the relevant service is rendered by applying the relevant tariff. This includes the issuing of licences and permits.

Revenue from the sale of goods is recognised when substantially all the risks and rewards in those goods are passed to the consumer.

Revenue arising out of situations where the municipality acts as an agent on behalf of another entity (the principal) is limited to the amount of any fee or commission payable to the municipality as compensation for executing the agreed services.

Revenue shall be measured at the fair value of the consideration received or receivable.

The amount of revenue arising on a transaction is usually determined by agreement between the entity and the purchaser or user of the asset or service. It is measured at the fair value of the consideration received or receivable taking into account the amount of any trade discounts and volume rebates allowed by the entity.

In most cases, the consideration is in the form of cash or cash equivalents and the amount of revenue is the amount of cash or cash equivalents received or receivable. However, when the inflow of cash or cash equivalents is deferred, the fair value of the consideration may be less than the nominal amount of cash received or receivable. When the arrangement effectively constitutes a financing transaction, the fair value of the consideration is determined by discounting all future receipts using an imputed rate of interest. The imputed rate of interest is the more clearly determinable of either:

- The prevailing rate for a similar instrument of an issuer with a similar credit rating; or

## **KHAI MA MUNICIPALITY**

### **NOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR ENDED 30 JUNE 2011**

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- A rate of interest that discounts the nominal amount of the instrument to the current cash sales price of the goods or services.

The difference between the fair value and the nominal amount of the consideration is recognised as interest revenue and in accordance with the relevant Standards of GRAP on Financial Instruments.

When goods or services are exchanged or swapped for goods or services which are of a similar nature and value, the exchange is not regarded as a transaction that generates revenue. When goods are sold or services are rendered in exchange for dissimilar goods or services, the exchange is regarded as a transaction that generates revenue. The revenue is measured at the fair value of the goods or services received, adjusted by the amount of any cash or cash equivalents transferred. When the fair value of the goods or services received cannot be measured reliably, the revenue is measured at the fair value of the goods or services given up, adjusted by the amount of any cash or cash equivalents transferred.

#### **1.22.3 Grants, Transfers and Donations (Non-Exchange Revenue)**

Grants, transfers and donations received or receivable are recognised when the resources that have been transferred meet the criteria for recognition as an asset. A corresponding liability is raised to the extent that the grant, transfer or donation is conditional. The liability is transferred to revenue as and when the conditions attached to the grant are met. Grants without any conditions attached are recognised as revenue when the asset is recognised.

#### **1.23. RELATED PARTIES**

Parties are considered to be related if one party has the ability to control the other party or exercise significant influence over the other party in making financial and operating decisions or if the related party entity and another entity are subject to common control.

Related parties include:

- Entities that directly, or indirectly through one or more intermediaries, control, or are controlled by the reporting entity;
- Individuals owning, directly or indirectly, an interest in the reporting entity that gives them significant influence over the entity, and close members of the family of any such individual;
- Key management personnel, and close members of the family of key management personnel; and
- Entities in which a substantial ownership interest is held, directly or indirectly, by any person described in the 2<sup>nd</sup> and 3<sup>rd</sup> bullet, or over which such a person is able to exercise significant influence.

Key management personnel include:

- All directors or members of the governing body of the entity, being the Executive Mayor, Deputy Mayor, Speaker and members of the Mayoral Committee.
- Other persons having the authority and responsibility for planning, directing and controlling the activities of the reporting entity being the Municipal Manager, Chief Financial Officer and all other managers reporting directly to the Municipal Manager or as designated by the Municipal Manager.

## **KHAI MA MUNICIPALITY**

### **NOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR ENDED 30 JUNE 2011**

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#### **1.24. UNAUTHORISED EXPENDITURE**

Unauthorised expenditure is expenditure that has not been budgeted, expenditure that is not in terms of the conditions of an allocation received from another sphere of government, municipality or organ of state and expenditure in a form of a grant that is not permitted in terms of the Municipal Finance Management Act (Act No. 56 of 2003). Unauthorised expenditure is accounted for as an expense in the Statement of Financial Performance and where recovered, it is subsequently accounted for as revenue in the Statement of Financial Performance.

#### **1.25. IRREGULAR EXPENDITURE**

Irregular expenditure is expenditure that is contrary to the Municipal Finance Management Act (Act No. 56 of 2003), the Municipal Systems Act (Act No. 32 of 2000), the Public Office Bearers Act, and (Act. No. 20 of 1998) or is in contravention of the Municipality's Supply Chain Management Policy. Irregular expenditure excludes unauthorised expenditure. Irregular expenditure is accounted for as expenditure in the Statement of Financial Performance and where recovered, it is subsequently accounted for as revenue in the Statement of Financial Performance.

#### **1.26. FRUITLESS AND WASTEFUL EXPENDITURE**

Fruitless and wasteful expenditure is expenditure that was made in vain and could have been avoided had reasonable care been exercised. Fruitless and wasteful expenditure is accounted for as expenditure in the Statement of Financial Performance and where recovered, it is subsequently accounted for as revenue in the Statement of Financial Performance.

#### **1.27. CONTINGENT LIABILITIES**

A contingent liability is a possible obligation that arises from past events and whose existence will be confirmed only by the occurrence or non-occurrence of one or more uncertain future events not wholly within the control of the entity. A contingent liability could also be a present obligation that arises from past events, but is not recognised because it is not probable that an outflow of resources embodying economic benefits will be required to the obligation or the amount of the obligation cannot be measured with sufficient reliability.

Management judgement is required when recognising and measuring contingent liabilities.

#### **1.28. PRESENTATION OF BUDGET INFORMATION**

The presentation of budget information was prepared in accordance with the best practice guidelines issued by National Treasury. The presentation of budget information is in line with the basis of accounting as per the GRAP Framework. GRAP 24: Presentation of Budget Information in Financial Statements is not yet effective. This standard brings new rules in respect of presentation of budget information.

#### **1.29. SIGNIFICANT ACCOUNTING JUDGEMENTS AND ESTIMATES**

In the process of applying the Municipality's accounting policy, management has made the following significant accounting judgements, estimates and assumptions, which have the most significant effect on the amounts recognised in the financial statements:

## **KHAI MA MUNICIPALITY**

### **NOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR ENDED 30 JUNE 2011**

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#### ***Post retirement medical obligations, Long service awards and Ex gratia gratuities***

The cost of post retirement medical obligations, long service awards and ex-gratia gratuities are determined using actuarial valuations. The actuarial valuation involves making assumptions about discount rates, expected rates of return on assets, future salary increases, mortality rates and future pension increases. Due to the long-term nature of these plans, such estimates are subject to significant uncertainty.

#### ***Impairment of trade receivables***

The calculation in respect of the impairment of debtors is based on an assessment of the extent to which debtors have defaulted on payments already due, and an assessment of their ability to make payments based on their creditworthiness. This was performed per service-identifiable categories across all classes of debtors.

#### ***Property, plant and equipment***

The useful lives of property, plant and equipment are based on management's estimation. Infrastructure's useful lives are based on technical estimates of the practical useful lives for the different infrastructure types, given engineering technical knowledge of the infrastructure types and service requirements. For other assets and buildings management considers the impact of technology, availability of capital funding, service requirements and required return on assets to determine the optimum useful life expectation, where appropriate. The estimation of residual values of assets is also based on management's judgement whether the assets will be sold or used to the end of their useful lives, and in what condition they will be at that time.

For deemed cost applied to other assets as per adoption of Directive 7, management used the depreciation cost method which was based on assumptions about the remaining duration of the assets.

For deemed cost applied to land and buildings as per adoption of Directive 7, management made use of an independent valuator. The valuator's valuation was based on assumptions about the market's buying and selling trends and the remaining duration of the assets.

#### ***Intangible assets***

The useful lives of intangible assets are based on management's estimation. Management considers the impact of technology, availability of capital funding, service requirements and required return on assets to determine the optimum useful life expectation, where appropriate.

For deemed cost applied to intangible assets as per adoption of Directive 7, management used the depreciation cost method which was based on assumptions about the remaining duration of the assets.

#### ***Investment Property***

The useful lives of investment property are based on management's estimation. Management considers the impact of technology, availability of capital funding, service requirements and required return on assets to determine the optimum useful life expectation, where appropriate. The estimation of residual values of assets is also based on management's judgement whether the assets will be sold or used to the end of their economic lives, and in what condition they will be at that time.

## **KHAI MA MUNICIPALITY**

### **NOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR ENDED 30 JUNE 2011**

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For deemed cost applied to Investment Property as per adoption of Directive 7, management made use of an independent valuator. The valuator's valuation was based on assumptions about the market's buying and selling trends and the remaining duration of the assets.

#### ***Provisions and contingent liabilities***

Management judgement is required when recognising and measuring provisions and when measuring contingent liabilities. Provisions are discounted where the effect of discounting is material using actuarial valuations.

#### ***Revenue Recognition***

Accounting Policy 1.22.1 on Revenue from Non-Exchange Transactions and Accounting Policy 1.19.2 on Revenue from Exchange Transactions describes the conditions under which revenue will be recognised by management of the Municipality.

In making their judgement, management considered the detailed criteria for the recognition of revenue as set out in GRAP 9: Revenue from Exchange Transactions and GRAP 23: Revenue from Non-Exchange Transactions.). Specifically, whether the Municipality, when goods are sold, had transferred to the buyer the significant risks and rewards of ownership of the goods and when services are rendered, whether the service has been performed. Revenue from the issuing of spot fines and summonses has been recognised on the accrual basis using estimates of future collections based on the actual results of prior periods. The management of the Municipality is satisfied that recognition of the revenue in the current year is appropriate.

#### **1.30. TAXES – VALUE ADDED TAX**

Revenue, expenses and assets are recognised net of the amounts of value added tax. The net amount of Value added tax recoverable from, or payable to, the taxation authority is included as part of receivables or payables in the Statement of Financial Position.

#### **1.31. AMENDED DISCLOSURE POLICY**

Amendments to accounting policies are reported as and when deemed necessary based on the relevance of any such amendment to the format and presentation of the financial statements. The principal amendments to matters disclosed in the current financial statements include fundamental errors, and the treatment of assets financed by external grants.

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# KHAI-MA MUNICIPALITY

## STATEMENT OF FINANCIAL POSITION AT 30 JUNE 2011

	Notes	2011 R	2010 R
<b>NET ASSETS AND LIABILITIES</b>			
<b>Net Assets</b>		<b>56 297 491</b>	<b>46 807 521</b>
Housing Development Fund	2	14 078	13 362
Revaluation Reserve	3	4 069 364	4 204 678
Accumulated Surplus/(Deficit)		52 214 050	42 589 481
<b>Non-Current Liabilities</b>		<b>6 212 419</b>	<b>5 543 475</b>
Long-term Liabilities	4	73 942	242 900
Employee Benefits	5	2 968 962	2 310 466
Non-current Provisions	6	3 169 515	2 990 109
<b>Current Liabilities</b>		<b>12 962 286</b>	<b>14 666 765</b>
Consumer Deposits	7	51 049	54 448
Current Employee Benefits	8	626 684	566 236
Provisions	9	-	-
Payables from Exchange Transaction	10	5 906 688	4 301 648
Unspent Conditional Government Grants and Receipts	11	6 117 999	8 894 364
Unspent Conditional Public Contributions and Receipts	12	-	-
Taxes	13	-	-
Short-term Loans	14	-	-
Operating Lease Liability	24.1	-	-
Cash and Cash Equivalents	25	-	729 687
Current Portion of Long-term Liabilities	4	259 865	120 382
<b>Total Net Assets and Liabilities</b>		<b>75 472 197</b>	<b>67 017 761</b>
<b>ASSETS</b>			
<b>Non-Current Assets</b>		<b>63 331 865</b>	<b>55 359 635</b>
Property, Plant and Equipment	15	62 945 169	54 931 506
Non-Current Assets Held for Sale	16	-	-
Investment Property	17	-	-
Intangible Assets	18	386 695	428 129
Investments	19	-	-
Long-Term Receivables	20	-	-
<b>Current Assets</b>		<b>12 140 332</b>	<b>11 658 126</b>
Inventory	21	3 155 472	1 066 629
Trade Receivables from exchange transactions	22	1 300 459	1 258 528
Other Receivables from non-exchange transactions	23	1 034 394	1 707 227
Unpaid Conditional Government Grants and Receipts	11	-	-
Operating Lease Asset	24.2	-	-
Taxes	13	1 341 262	402 914
Current Portion of Long-term Receivables	20	-	-
Cash and Cash Equivalents	25	5 308 745	7 222 829
<b>Total Assets</b>		<b>75 472 197</b>	<b>67 017 761</b>



**KHAI-MA MUNICIPALITY**

**STATEMENT OF FINANCIAL PERFORMANCE FOR THE YEAR ENDED 30 JUNE 2011**

	Notes	2011 R	2010 R Restated Balance	Change in Accounting Policy	2010 R Previously Reported
<b>REVENUE</b>					
<b>Revenue from Non-exchange Transactions</b>		<b>31 283 675</b>	<b>13 787 338</b>	<b>103 000</b>	<b>13 684 338</b>
<b>Taxation Revenue</b>		<b>1 790 238</b>	<b>1 602 143</b>	<b>-</b>	<b>1 602 143</b>
Property taxes	26	1 790 238	1 602 143	-	1 602 143
<b>Transfer Revenue</b>		<b>29 472 002</b>	<b>12 159 865</b>	<b>103 000</b>	<b>12 056 865</b>
Government Grants and Subsidies	27	29 211 620	12 053 865	-	12 053 865
Public Contributions and Donations	28	260 382	3 000	-	3 000
Contributed Property, Plant and Equipment	29	-	103 000	103 000	-
<b>Other Revenue</b>		<b>21 435</b>	<b>25 330</b>	<b>-</b>	<b>25 330</b>
Fines		21 435	25 330	-	25 330
Third party payments		-	-	-	-
Stock adjustments		-	-	-	-
Actuarial Gains	6	-	-	-	-
Changes in Fair Value	30.1	-	-	-	-
Other	31	-	-	-	-
<b>Revenue from Exchange Transactions</b>		<b>8 133 345</b>	<b>6 439 894</b>	<b>-</b>	<b>6 439 894</b>
Property Rates - penalties imposed and collection charges		-	-	-	-
Service Charges	32	5 723 992	4 970 526	-	4 970 526
Rental of Facilities and Equipment		118 100	105 617	-	105 617
Interest Earned - external investments		423 934	243 593	-	243 593
Interest Earned - outstanding debtors		617 326	754 406	-	754 406
Licences and Permits		24 265	15 731	-	15 731
Income for Agency Services		104 707	101 453	-	101 453
Other Income	33	1 121 021	248 568	-	248 568
Unamortised discount - Interest	34	-	-	-	-
<b>Total Revenue</b>		<b>39 417 020</b>	<b>20 227 232</b>	<b>103 000</b>	<b>20 124 232</b>
<b>EXPENDITURE</b>					
Employee related costs	35	5 769 670	5 171 013	-	5 171 013
Remuneration of Councillors	36	1 399 009	1 279 461	-	1 279 461
Debt Impairment	37	1 575 267	2 696 483	-	2 696 483
Collection costs		-	-	-	-
Increase in Provision for Rehabilitation of Landfill Site		-	-	(238 727)	238 727
Depreciation and Amortisation		1 756 003	1 821 687	381 695	1 439 993
Repairs and Maintenance		1 015 061	789 943	-	789 943
Unamortised discount - Interest	34	451 718	498 930	-	498 930
Actuarial losses	6	474 957	-	-	-
Finance Charges	39	447 516	530 571	169 251	361 319
Bulk Purchases	40	4 002 992	3 163 904	-	3 163 904
Contracted services		210 313	243 601	-	243 601
Grants and Subsidies Paid	41	-	-	-	-
Donations		47 702	68 044	-	68 044
General Expenses	42	12 730 572	5 889 093	-	5 889 093
Changes in Fair Value	30.2	-	-	-	-
<b>Total Expenditure</b>		<b>29 880 781</b>	<b>22 152 729</b>	<b>312 219</b>	<b>21 840 510</b>
<b>Operating Surplus for the Year</b>		<b>9 536 239</b>	<b>(1 925 497)</b>	<b>(209 219)</b>	<b>(1 716 278)</b>
Loss on disposal of Property, Plant and Equipment		33 726	135	-	-
Impairment Loss/(Reversal of Impairment Loss)	38	12 543	3 700	-	-
<b>NET SURPLUS/(DEFICIT) FOR THE YEAR</b>		<b>9 489 970</b>	<b>(1 929 332)</b>	<b>(209 219)</b>	<b>(1 716 278)</b>
Refer to Appendix E(1) for explanation of variances					

KHAI-MA MUNICIPALITY

STATEMENT OF CHANGES IN NET ASSETS FOR THE YEAR ENDED 30 JUNE 2011

	Housing Development Fund	Revaluation Reserve	Accumulated Surplus/ (Deficit)	Total
	R	R	R	R
<b>Balance at 1 JULY 2009</b>	<b>12 641</b>	<b>4 353 078</b>	35 106 051	39 471 770
Net Surplus/(Deficit) for the year			(1 929 332)	(1 929 332)
Change in Accounting Policy - Note 43.4		(5 133)	9 270 216	9 265 083
Revaluation of PPE		-		-
Donated/contributed PPE			-	-
Property, Plant and Equipment purchased			-	-
Capital Grants used to purchase PPE			-	-
Transfer to Housing Development Fund	721		(721)	-
Asset Disposals			-	-
Offsetting of depreciation		(143 267)	143 267	-
<b>Balance at 30 JUNE 2010</b>	<b>13 362</b>	<b>4 204 678</b>	<b>42 589 481</b>	<b>46 807 521</b>
Correction of Error - Note 43.4	-	-	-	-
<b>Restated balance</b>	<b>13 362</b>	<b>4 204 678</b>	<b>42 589 481</b>	<b>46 807 521</b>
Net Surplus/(Deficit) for the year			9 489 970	9 489 970
Transfer to/from CRR			-	-
Revaluation of PPE		-		-
Property, Plant and Equipment purchased			-	-
Capital Grants used to purchase PPE			-	-
Transfer to Housing Development Fund	716		(716)	-
Write-offs			-	-
Asset Disposals		-	-	-
Offsetting of depreciation		(135 314)	135 314	-
<b>Balance at 30 JUNE 2011</b>	<b>14 078</b>	<b>4 069 364</b>	<b>52 214 050</b>	<b>56 297 491</b>

# KHAI-MA MUNICIPALITY

## CASH FLOW STATEMENT FOR THE YEAR ENDED 30 JUNE 2011

	Notes	2011 R	2010 R
<b>CASH FLOW FROM OPERATING ACTIVITIES</b>			
<b>Receipts</b>			
Ratepayers and other		6 874 874	9 745 108
Government - operating		29 211 620	12 053 865
Government - capital		-	-
Interest		1 041 260	997 999
Dividends		-	-
<b>Payments</b>			
Suppliers and employees		(27 578 801)	(15 509 865)
Finance charges		(447 516)	(530 571)
Transfers and Grants		-	-
Cash generated/(absorbed) by operations	<b>44</b>	9 101 436	6 756 536
Interest Received		423 934	243 593
Interest Paid		(447 516)	(530 571)
<b>Net Cash from Operating Activities</b>		<b>9 077 853</b>	<b>6 469 559</b>
<b>CASH FLOW FROM INVESTING ACTIVITIES</b>			
Purchase of Property, Plant and Equipment		(9 753 844)	(1 512 154)
Proceeds on Disposal of Fixed Assets		-	-
(Increase)/Decrease in Intangible Assets		(23 815)	(433 668)
(Increase)/Decrease in Long-term Receivables		-	-
(Increase)/Decrease in Non-current Investments		-	-
<b>Net Cash from Investing Activities</b>		<b>(9 777 659)</b>	<b>(1 945 822)</b>
<b>CASH FLOW FROM FINANCING ACTIVITIES</b>			
New loans raised/(repaid)		(481 193)	(559 942)
Increase/(Decrease) in Consumer Deposits		(3 399)	6 681
<b>Net Cash from Financing Activities</b>		<b>(484 592)</b>	<b>(553 261)</b>
<b>NET INCREASE/(DECREASE) IN CASH AND CASH EQUIVALENTS</b>		<b>(1 184 398)</b>	<b>3 970 476</b>
Cash and Cash Equivalents at the beginning of the year		6 493 142	2 522 666
Cash and Cash Equivalents at the end of the year	<b>45</b>	5 308 745	6 493 142
<b>NET INCREASE/(DECREASE) IN CASH AND CASH EQUIVALENTS</b>		<b>(1 184 398)</b>	<b>3 970 476</b>

KHAI-MA MUNICIPALITY

NOTES ON THE FINANCIAL STATEMENTS FOR THE YEAR ENDED 30 JUNE 2011

	2011 R	2010 R
<b>2 HOUSING DEVELOPMENT FUND</b>		
Housing Development Fund	14 078	13 362
Unappropriated Surplus	14 078	13 362
Loans extinguished by Government on 1 April 1998	-	-
<b>Total Housing Development Fund Assets and Liabilities</b>	<b>14 078</b>	<b>13 362</b>
<b>3 NET ASSET RESERVES</b>		
RESERVES	4 069 364	4 204 678
Capital Replacement Reserve	-	-
Capitalisation Reserve	-	-
Government Grant Reserve	-	-
Donations and Public Contribution Reserve	-	-
Self Insurance Reserve	-	-
Revaluation Reserve	4 069 364	4 204 678
<b>Total Net Asset Reserve and Liabilities</b>	<b>4 069 364</b>	<b>4 204 678</b>
<b>4 LONG TERM LIABILITIES</b>		
Annuity Loans - At amortised cost	399 885	962 966
Capitalised Lease Liability - At amortised cost	90 907	9 019
	<b>490 792</b>	<b>971 985</b>
<b>Less:</b> Current Portion transferred to Current Liabilities	<b>(259 865)</b>	<b>(120 382)</b>
Annuity Loans - At amortised cost	(242 900)	(111 363)
Capitalised Lease Liability - At amortised cost	(16 965)	(9 019)
	<b>230 927</b>	<b>851 603</b>
<b>Less:</b> Unamortised charges on loans	<b>(156 985)</b>	<b>(608 703)</b>
Balance 1 July	(608 703)	(1 107 633)
Adjustment for the period - Note 34	451 718	498 930
Restatement of prior year comparatives - Note 44	-	-
<b>Total Long-term Liabilities - At amortised cost using the effective interest rate method</b>	<b>73 942</b>	<b>242 900</b>
Annuity loans at amortised cost is calculated at 5%-14% interest rate, with first maturity date of 29 February 2012 and last maturity date of 30 June 2012. The schedule of contractual maturity analysis for Annuity Loans:		
	2011 R	2010 R
The obligations under annuity loans are scheduled below:	<b>Minimum annuity payments</b>	
Amounts payable under annuity loans:		
Payable within one year	409 612	602 009
Payable within two to five years	-	409 612
Payable after five years	-	-
	409 612	1 011 621
<b>Less:</b> Future finance obligations	(9 727)	(48 656)
<b>Present value of annuity obligations</b>	<b>399 885</b>	<b>962 966</b>
The obligations under finance leases are scheduled below:	<b>Minimum lease payments</b>	
Amounts payable under finance leases:		
Payable within one year	25 992	9 160
Payable within two to five years	88 806	-
Payable after five years	-	-
	114 798	9 160
<b>Less:</b> Future finance obligations	(23 891)	(140)
<b>Present value of lease obligations</b>	<b>90 907</b>	<b>9 019</b>

Refer to Appendix A for descriptions, maturity dates and effective interest rates of structured loans and finance.  
Leases are secured by property, plant and equipment - Note 15

KHAI-MA MUNICIPALITY

NOTES ON THE FINANCIAL STATEMENTS FOR THE YEAR ENDED 30 JUNE 2011

5		2011 R	2010 R
	<b>EMPLOYEE BENEFITS</b>		
	Provision for Post Retirement Benefits	2 968 962	2 310 466
		<b>2 968 962</b>	<b>2 310 466</b>
	<b><u>Post Retirement Benefits</u></b>		
	Balance 1 July	2 408 727	2 233 884
	Contribution for the year	287 831	266 103
	Expenditure for the year	(98 261)	(91 260)
	Actuarial Loss/(Gain)	474 957	-
	<b>Total provision 30 June</b>	<b>3 073 254</b>	<b>2 408 727</b>
	<b>Less:</b> Transfer of Current Portion to Current Provisions - Note 8	(104 292)	(98 261)
	<b>Balance 30 June</b>	<b>2 968 962</b>	<b>2 310 466</b>
5.1	<b>Provision for Post Retirement Benefits</b>		
	The Post Retirement Benefit Plan is a defined benefit plan, of which the members are made up as follows:		
	In-service (employee) members	9	11
	In-service (employee) non-members	35	
	Continuation members (e.g. Retirees, widows, orphans)	4	4
	<b>Total Members</b>	<b>48</b>	<b>15</b>
		<b>2011 R</b>	<b>2010 R</b>
	The liability in respect of past service has been estimated to be as follows:		
	In-service members	1 384 537	-
	Continuation members	1 688 717	-
	<b>Total Liability</b>	<b>3 073 254</b>	<b>2 408 727</b>
	The liability in respect of periods commencing prior to the comparative year has been estimated as follows:		
		<b>2009 R</b>	<b>2008 R</b>
	In-service members	793 761	
	Continuation members	1 440 123	
		<b>2 233 884</b>	<b>1 487 905</b>
	The municipality makes monthly contributions for health care arrangements to the following medical aid		
	LA Health		
	Key Health		
	The Current-service Cost for the ensuing year is estimated to be R 106,673 (2010: R 70,293), whereas the Interest Cost for the next year is estimated to be R 260,400 (2010: R 217,500).		
	Key actuarial assumptions used:	<b>2011 %</b>	<b>2010 %</b>
	<b>i) Rate of interest</b>		
	Discount rate	8.62%	9.22%
	Health Care Cost Inflation Rate	7.31%	7.67%
	Net Effective Discount Rate	1.22%	1.43%
	<b>ii) Mortality rates</b>		
	The PA 90 ultimate table, rated down by 1 year of age was used by the actuaries.		
	<b>iii) Normal retirement age</b>		
	The normal retirement age for employees of the municipality is 63 years.		
	<b>The amounts recognised in the Statement of Financial Position are as follows:</b>		
	Present value of fund obligations	3 073 254	2 408 727
	Fair value of plan assets	-	-
		<b>3 073 254</b>	<b>2 408 727</b>
	Present Value of unfunded obligations	-	-
	<b>Net liability/(asset)</b>	<b>3 073 254</b>	<b>2 408 727</b>
	The municipality has elected to recognise the full increase in this defined benefit liability immediately as per IAS 19, Employee Benefits, paragraph 155 (a).		
	<b>Reconciliation of present value of fund obligation:</b>		
	Present value of fund obligation at the beginning of the year	2 408 727	2 233 884
	Total expenses	189 570	174 843
	Current service cost	70 293	64 362
	Interest Cost	217 538	201 741
	Benefits Paid	(98 261)	(91 260)
	Actuarial (gains)/losses	474 957	-
	<b>Present value of fund obligation at the end of the year</b>	<b>3 073 254</b>	<b>2 408 727</b>

# KHAI-MA MUNICIPALITY

## NOTES ON THE FINANCIAL STATEMENTS FOR THE YEAR ENDED 30 JUNE 2011

	2011 R	2010 R
<b>Reconciliation of fair value of plan assets:</b>		
Fair value of plan assets at the beginning of the year	-	-
Expected return on plan assets	-	-
Contributions: Employer	-	-
Contributions: Employee	-	-
Past Service Costs	-	-
Actuarial (gains)/losses	-	-
Benefits Paid	-	-
Fair value of plan assets at the end of the year	-	-

Assumption	In-service members liability (Rm)	Continuation members liability (Rm)	Total liability (Rm)	% change
Central Assumptions	1385	1689	3 074	

  

Assumption	Change	In-service members liability (Rm)	Continuation members liability (Rm)	Liability (Rm)	% change
Health Care inflation	+1 %	1 684	1 896	3 580	16.00%
Health Care inflation	-1 %	1 148	1 514	2 662	-13.00%
Post Retirement Mortality	- 1 yr	1 430	1 749	3 179	3.00%
Average retirement age	- 1 yr	1 510	1 689	3 199	4.00%
Withdrawal rates	- 50 %	1 492	1 689	3 181	3.00%

### 5.1 Retirement funds

The Municipality requested detailed employee and pensioner information as well as information on the Municipality's share of the Pension and Retirement Funds' assets from the fund administrator. The fund administrator confirmed that assets of the Pension and Retirement Funds are not split per participating employer. Therefore, the Municipality is unable to determine the value of the plan assets as defined in GRAP 25.

As part of the Municipality's process to value the defined benefit liabilities, the Municipality requested pensioner data from the fund administrator. The fund administrator claim that the pensioner data to be confidential and were not willing to share the information with the Municipality. Without detailed pensioner data the Municipality was unable to calculate a reliable estimate of the accrued liability in respect of pensioners who qualify for a defined benefit pension.

Therefore, although both the Cape Joint Pension Fund and Cape Joint Retirement Fund are defined as defined benefit plans, it will be accounted for as defined contribution plans.

#### CAPE JOINT PENSION FUND

The contribution rate payable is 9% by members and 18% by Council. The last actuarial valuation performed for the year ended 30 June 2010 revealed that the fund is in an sound financial position with a funding level of 100% (30 June 2009 - 100%). Actuarial valuations also determined that there were a shortfall in the investment return for the 30 June 2010 financial year.

Contributions paid recognised in the Statement of Financial Performance	149 860	169 877
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#### CAPE JOINT RETIREMENT FUND

The contribution rate payable is 9% by members and 18% by Council. The last actuarial valuation performed for the year ended 30 June 2010 revealed that the fund is in a sound financial position with a funding level of 100.3% (30 June 2009 - 103.3%).

Contributions paid recognised in the Statement of Financial Performance	-	-
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#### DEFINED CONTRIBUTION PLANS

Council contribute to the Government Employees Pension Fund, Municipal Council Pension Fund, IMATU Retirement Fund and SAMWU National Provident Fund which are defined contribution funds. The retirement benefit fund is subject to the Pension Fund Act, 1956, with pension being calculated on the pensionable remuneration paid. Current contributions by Council are charged against expenditure on the basis of current service costs.

Contributions paid recognised in the Statement of Financial Performance

Government Employees Pension Fund	-	-
Municipal Councillors Pension Fund	59 090	162 056
IMATU Retirement Fund	53 193	47 950
SAMWU National Provident Fund	416 486	385 760
	528 769	595 766

KHAI-MA MUNICIPALITY

NOTES ON THE FINANCIAL STATEMENTS FOR THE YEAR ENDED 30 JUNE 2011

6	NON-CURRENT PROVISIONS	2011	2010
		R	R
	Provision for Rehabilitation of Landfill-sites	3 169 515	2 990 109
	<b>Total Non-current Provision Liabilities</b>	<b>3 169 515</b>	<b>2 990 109</b>
	<b><u>Landfill Sites</u></b>		
	Balance previously reported 1 July	2 990 109	2 750 000
	Change in Accounting Policy - Change in Opening Balance		70 857
	Restated Balance		2 820 857
	Contribution for the year	179 407	169 251
	Expenditure for the year	-	-
	<b>Total provision 30 June</b>	<b>3 169 515</b>	<b>2 990 109</b>
	<b>Less:</b> Transfer of Current Portion to Current Provisions - Note 8	-	-
	<b>Balance 30 June</b>	<b>3 169 515</b>	<b>2 990 109</b>
	In terms of the licensing of the landfill refuse site, the municipality will incur rehabilitation costs in future to restore the sites at the end of their useful lives, estimated to be in 2015. Provision has been made for closing- and rehabilitation costs till date. The municipality is in process to calculate the projected cost of rehabilitation in 2015.		
	<b><u>TOTAL NON-CURRENT PROVISIONS</u></b>		
	Balance 1 July	2 990 109	2 820 857
	Contribution for the year	179 407	169 251
	Expenditure for the year	-	-
	Actuarial Loss/(Gain)	-	-
	<b>Total provision 30 June</b>	<b>3 169 515</b>	<b>2 990 109</b>
	<b>Less:</b> Transfer of Current Portion to Current Provisions - Note 8	-	-
	<b>Balance 30 June</b>	<b>3 169 515</b>	<b>2 990 109</b>
		<b>2011</b>	<b>2010</b>
		<b>R</b>	<b>R</b>
7	CONSUMER DEPOSITS		
	Water and Electricity	51 049	54 448
	<b>Total Consumer Deposits</b>	<b>51 049</b>	<b>54 448</b>
	The fair value of consumer deposits approximate their carrying value. Interest is not paid on these amounts.		
	<b>Guarantees held in lieu of Water Deposits</b>	-	-
8	CURRENT EMPLOYEE BENEFITS	2011	2010
		R	R
	Performance Bonuses	-	-
	Staff Leave	522 392	467 975
	Balance previously reported	522 392	467 975
	Change in accounting policy - refer note	-	-
	Current Portion of Non-Current Employee Benefits	104 292	98 261
	Current Portion of Post Retirement Benefits - Note 6	104 292	98 261
	<b>Total Employee Benefits</b>	<b>626 684</b>	<b>566 236</b>

KHAI-MA MUNICIPALITY

NOTES ON THE FINANCIAL STATEMENTS FOR THE YEAR ENDED 30 JUNE 2011

2011  
R

2010  
R

The movement in current provisions are reconciled as follows:

**Staff Leave**

Balance at beginning of year	467 975	475 941
Contribution to provision	178 094	198 664
Expenditure incurred	(123 677)	(206 629)
Balance at end of year	<b>522 392</b>	<b>467 975</b>

Staff leave accrued to employees according to collective agreement. Provision is made for the full cost of accrued leave at reporting date. This provision will be realised as employees take leave. There is no possibility of reimbursement.

**9 PROVISIONS**

Current Portion of Non-Current Provisions - Note 6

**Total Provisions**

-	-
-	-

**10 PAYABLES FROM EXCHANGE TRANSACTIONS**

Payments received in advance	125 546	117 610
Retentions	901 234	-
Other Creditors	4 879 908	4 184 038
Deposits: Other	-	-
<b>Total Trade Payables</b>	<b>5 906 688</b>	<b>4 301 648</b>

**11 UNSPENT CONDITIONAL GOVERNMENT GRANTS AND RECEIPTS**

**11.1 Conditional Grants from other spheres of Government**

Unspent Grants	6 117 999	8 894 364
National and Provincial Government Grants	6 117 999	8 894 364
Correction of error - Note		
Restated balance 30 June 2007	6 117 999	8 894 364
<b>Less: Unpaid Grants</b>	-	-
National Government Grants	-	-
Provincial Government Grants	-	-
Other Sources	-	-
<b>Total Conditional Grants and Receipts</b>	<b>6 117 999</b>	<b>8 894 364</b>

See appendix "F" for reconciliation of grants from other spheres of government. The municipality complied with the conditions attached to all grants received to the extent of revenue recognised. No grants were withheld. Unspent Grants not cash-banked on 30 June 2010 amounts to R 1 096 575 (2010: R1 871 641). The remaining Unspent Grants are cash-backed by term deposits.

**12 UNSPENT CONDITIONAL PUBLIC CONTRIBUTIONS AND RECEIPTS**

Unspent augmentation fees from developers

-	-
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**13 TAXES**

VAT Payable	-	-
VAT Receivable	1 341 262	402 914

**14 SHORT-TERM LOANS**

The Municipality has no short term loans.



KHAI-MA MUNICIPALITY

NOTES ON THE FINANCIAL STATEMENTS FOR THE YEAR ENDED 30 JUNE 2011

		2011 R	2010 R
15	PROPERTY, PLANT AND EQUIPMENT		
	<a href="#">See attached sheet</a>		









KHAI-MA MUNICIPALITY

NOTES ON THE FINANCIAL STATEMENTS FOR THE YEAR ENDED 30 JUNE 2011

15	PROPERTY, PLANT AND EQUIPMENT (CONTINUED)	2011 R	2010 R
	<b>Third party payments received for losses incurred:</b>		
	Payments received (Excluding VAT)	-	-
	Carrying value of assets written off/lost	-	-
	Surplus/Deficit	-	-
		<b>2011 R</b>	<b>2010 R</b>
	<b>Impairment of property plant and equipment</b>		
	Impairment charges on Property, plant and equipment recognised in statement of financial performance		
	Land and Buildings	-	-
	Infrastructure	-	-
	Community Assets	-	-
	Lease Assets	-	-
	Heritage	-	-
	Other	-	-
		-	-
	<b>Cumulative impairment charges included in major balances</b>		
	Land and Buildings	-	-
	Infrastructure	-	-
	Community Assets	-	-
	Lease Assets	-	-
	Heritage	-	-
	Other	-	-
		-	-
	<b>Effect of changes in accounting estimates</b>	<b>2011 R</b>	<b>2011 R</b>
	Effect on Property, plant and equipment	-	-
		-	-
	<b>Details of property plant and equipment carried at fair value</b>		
	Reconciliation of revaluation surplus:		
	Opening balance	4 209 811	4 353 078
	Movement for the period	(135 314)	(143 267)
	Closing balance	4 074 496	4 209 811
16	<b>NON-CURRENT ASSETS HELD FOR SALE</b>		
	Non-current assets held for sale at beginning of year - at book value	-	-
	Additions for the year	-	-
	Non-current assets sold/written off during the year	-	-
	Non-current assets held for sale at end of year - at book value	-	-
	Exemptions taken according to Directive 4 - Transitional Provisions for Medium and Low Capacity Municipalities - Note 61		

KHAI-MA MUNICIPALITY

NOTES ON THE FINANCIAL STATEMENTS FOR THE YEAR ENDED 30 JUNE 2011

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**INVESTMENT PROPERTY**

**Net Carrying amount at 1 July**

	2011 R	2010 R
Cost	-	-
Accumulated Depreciation	-	-

Transfer to Property, Plant and Equipment - Note 15

Cost	-	-
Accumulated Depreciation	-	-

Acquisitions

Depreciation for the year

**Net Carrying amount at 30 June**

Cost	-	-
Accumulated Depreciation	-	-

Exemptions taken according to Directive 4 - Transitional Provisions for Medium and Low Capacity Municipalities - Note 61

	2011 R	2010 R
Revenue derived from the rental of investment property	-	-
Operating expenditure incurred on properties generating revenue	-	-
Operating expenditure incurred on properties not generating revenue	-	-

There are no restrictions on the realisability of Investment Property or the remittance of revenue and proceeds of disposal.

There are no contractual obligations to purchase, construct or develop investment property or for repairs, maintenance or enhancements.

Estimated Fair Value of Investment Property at 30 June	-	-
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**INTANGIBLE ASSETS**

**Net Carrying amount at 1 July**

Cost	428 129	-
Accumulated Amortisation	(5 539)	-

Acquisitions

Amortisation

Impairments

Disposals

Amortisation written back on disposal

Cost	23 815	433 668
Amortisation	(63 056)	(5 539)
Impairments	(2 193)	-
Disposals	-	-
Amortisation written back on disposal	-	-

**Net Carrying amount at 30 June**

Cost	386 695	428 129
Accumulated Amortisation	(68 156)	(5 539)

Exemptions taken according to Directive 4 - Transitional Provisions for Medium and Low Capacity Municipalities - Note 59

No intangible asset were asessed having an indefinite useful life.

There are no intangible assets whose title is restricted.

There are no intangible assets pledged as security for liabilities

There are no contractual commitments for the acquisition of intangible assets.

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**INVESTMENTS**

**Financial Instruments**

**Unlisted**

Long term deposits	-	-
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**Total Investments**

	-	-
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No investments have been pledged as security for any funding facilities of the council.

Investments are made in terms of the municipality's Cash Management and Investment Policy, as required by means of Regulation R 308 of 1 April 2005 gazetted in the Government Gazette No 27431 of 1 April 2005 and issued by the Minister of Finance.

KHAI-MA MUNICIPALITY

NOTES ON THE FINANCIAL STATEMENTS FOR THE YEAR ENDED 30 JUNE 2011

		2011 R	2010 R
<b>20</b>	<b>LONG TERM RECEIVABLES</b>		
	Staff Car Loans - At amortised cost	-	-
	<b>Less:</b> Unamortised Discount on Loans	-	-
	Balance 1 July		
	Adjustment for the period		
	Change in Accounting Policy - Note 42.3		
	<b>Less:</b> Current portion transferred to current receivables		
	Staff Car Loans - At amortised cost	-	-
	<b>Less:</b> Provision for Impairment of Long Term Receivables		
	<b>Total Long Term Receivables</b>		
<b>21</b>	<b>INVENTORY</b>		
	Housing-Inventory held for transfer	1 041 500	1 051 850
	Materials - Housing Project	2 082 747	-
	Consumable Stores	13 507	-
	Water - At purification cost	17 718	14 779
	<b>Total Inventory</b>	<b>3 155 472</b>	<b>1 066 629</b>
	Consumable stores materials written down due to losses as identified during the annual stores counts.	-	-
<b>22</b>	<b>TRADE RECEIVABLES FROM EXCHANGE TRANSACTIONS</b>		
	Electricity	362 793	382 578
	Water	2 866 170	2 207 636
	Refuse	1 051 466	824 117
	Sewerage	1 136 565	892 821
	Recognition - Water debt	97 198	90 060
	Recognition - Electricity debt	43 257	56 801
	Recognition - Sewerage dept	1 069	825
	Other Receivables	315 062	304 205
	<b>Total: Trade receivables from exchange transactions (before provision)</b>	<b>5 873 580</b>	<b>4 759 043</b>
	Provision for Impairments	(4 573 121)	(3 500 515)
	<b>Total: Trade receivables from exchange transactions (after provision)</b>	<b>1 300 459</b>	<b>1 258 528</b>
	The fair value of other receivables approximate their carrying value.		
	<b><u>(Electricity, Water, Refuse and Sewerage): Ageing</u></b>		
	Current (0 - 30 days)	-	1
	Previous	586 795	516 141
	31 - 60 Days	328 492	257 570
	61 - 90 Days	368 451	275 324
	+ 90 Days	4 133 256	3 258 115
	<b>Total</b>	<b>5 416 994</b>	<b>4 307 152</b>
	<b><u>(Electricity): Ageing</u></b>		
	Current (0 - 30 days)	-	-
	Previous	139 167	-
	31 - 60 Days	34 142	-
	61 - 90 Days	26 477	-
	+ 90 Days	163 007	-
	<b>Total</b>	<b>362 793</b>	<b>382 578</b>
	<b><u>(Water): Ageing</u></b>		
	Current (0 - 30 days)	-	-
	Previous	274 355	-
	31 - 60 Days	214 424	-
	61 - 90 Days	259 344	-
	+ 90 Days	2 118 046	-
	<b>Total</b>	<b>2 866 170</b>	<b>2 207 636</b>



KHAI-MA MUNICIPALITY

NOTES ON THE FINANCIAL STATEMENTS FOR THE YEAR ENDED 30 JUNE 2011

	2011 R	2010 R
<b><u>(Refuse): Ageing</u></b>		
Current (0 - 30 days)	-	-
Previous	64 226	-
31 - 60 Days	36 494	-
61 - 90 Days	39 743	-
+ 90 Days	911 003	-
<b>Total</b>	<b>1 051 466</b>	<b>824 117</b>

<b><u>(Sewerage): Ageing</u></b>		
Current (0 - 30 days)	-	-
Previous	109 047	-
31 - 60 Days	43 432	-
61 - 90 Days	42 886	-
+ 90 Days	941 200	-
<b>Total</b>	<b>1 136 565</b>	<b>892 821</b>

**Summary of Debtors by Customer Classification**

	<b><u>Residential</u></b>	<b><u>Industrial/ Commercial</u></b>	<b><u>National and Provincial Government</u></b>
<b>30 JUNE 2011</b>			
Current (0 - 30 days)	-	-	-
Previous	485 256	76 293	25 247
31 - 60 Days	288 852	28 267	11 519
61 - 90 Days	340 373	19 785	8 147
+ 90 Days	3 888 929	216 313	28 014
Sub-total	5 003 409	340 657	72 928
<b>Less:</b> Provision for bad debts	(4 281 608)	(291 513)	-
<b>Total debtors by customer classification</b>	<b>721 801</b>	<b>49 144</b>	<b>72 928</b>

**Summary of Debtors by Customer Classification**

	<b><u>Residential</u></b>	<b><u>Industrial/ Commercial</u></b>	<b><u>National and Provincial Government</u></b>
<b>30 JUNE 2010</b>			
Current (0 - 30 days)	1	-	-
Previous	424 087	73 162	18 892
31 - 60 Days	242 123	11 154	4 294
61 - 90 Days	262 521	10 760	2 043
+ 90 Days	3 185 904	70 114	2 098
Sub-total	4 114 635	165 189	27 327
<b>Less:</b> Provision for bad debts	(3 365 405)	(135 110)	-
<b>Total debtors by customer classification</b>	<b>749 230</b>	<b>30 079</b>	<b>27 327</b>

**Reconciliation of Provision for Bad Debts**

	2011 R	2010 R
Balance at beginning of year	3 500 515	4 548 711
Contribution to provision	1 077 444	2 692 637
Bad Debts (written off)	(4 838)	(3 740 832)
<b>Balance at end of year</b>	<b>4 573 121</b>	<b>3 500 515</b>

The total amount of this provision is R 4 573 121 and consist of:

	2011 R	2010 R
Service Charges	4 474 847	3 500 515
Other Debtors	98 274	-
<b>Total Provision for Bad Debts on Trade Receivables from exchange transactions</b>	<b>4 573 121</b>	<b>3 500 515</b>

The provision for doubtful debts on debtors (loans and receivables) exists due to the possibility that not all debts will be recovered. Loans and receivables were assessed individually and grouped together at the Statement of Financial Position date as financial assets with similar credit risk characteristics and collectively assessed for impairment.

Concentrations of credit risk with respect to trade receivables are limited due to the municipality's large number of customers. The municipality's historical experience in collection of trade receivables falls within recorded allowances. Due to these factors, management believes that no additional risk beyond amounts provided for collection losses is inherent in the municipality's trade receivables.

KHAI-MA MUNICIPALITY

NOTES ON THE FINANCIAL STATEMENTS FOR THE YEAR ENDED 30 JUNE 2011

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OTHER RECEIVABLES FROM NON-EXCHANGE TRANSACTIONS

	2011 R	2010 R
Taxes - Rates	1 275 990	1 026 964
Other Debtors	318 765	723 725
Irregular, Fruitless and Wasteful Expenditure - Receivables	32 917	32 917
Suspense Accounts	56 468	75 543
VAT		
	1 684 141	1 859 150
<b>Less:</b> Provision for bad debts	(649 746)	(151 923)
<b>Total Other Receivables from non-exchange transactions</b>	<b>1 034 394</b>	<b>1 707 227</b>

The fair value of other receivables approximate their carrying value.

**(Rates): Ageing**

Current (0 - 30 days)	-	1
Previous	44 707	35 290
31 - 60 Days	20 544	16 275
61 - 90 Days	57 601	14 722
+ 90 Days	1 153 139	960 676
<b>Total</b>	<b>1 275 990</b>	<b>1 026 964</b>

**Summary of Debtors (Rates) by Customer Classification**

	<b>Residential</b>	<b>Industrial/ Commercial</b>	<b>National and Provincial Government</b>
<b>30 JUNE 2011</b>			
Current (0 - 30 days)	-	-	
Previous	32 101	12 484	121
31 - 60 Days	12 528	7 895	121
61 - 90 Days	46 568	10 885	148
+ 90 Days	1 026 101	123 149	3 889
Sub-total	1 117 299	154 414	4 278
<b>Less:</b> Provision for bad debts	(570 853)	(78 893)	
<b>Total debtors by customer classification</b>	<b>546 446</b>	<b>75 520</b>	<b>4 278</b>

**Summary of Debtors (Rates) by Customer Classification**

	<b>Residential</b>	<b>Industrial/ Commercial</b>	<b>National and Provincial Government</b>
<b>30 JUNE 2010</b>			
Current (0 - 30 days)	-	-	
Previous	25 788	9 278	224
31 - 60 Days	11 410	4 642	223
61 - 90 Days	9 881	4 604	237
+ 90 Days	890 643	65 284	4 749
Sub-total	937 721	83 809	5 433
<b>Less:</b> Provision for bad debts	(139 459)	(12 464)	
<b>Total debtors by customer classification</b>	<b>798 263</b>	<b>71 345</b>	<b>5 433</b>

	2011 R	2010 R
<b>Reconciliation of Provision for Bad Debts</b>		
Balance at beginning of year	151 923	1 556 122
Contribution to provision	497 823	3 845
Bad Debts (written off)	-	(1 408 044)
Balance at end of year	<b>649 746</b>	<b>151 923</b>

The total amount of this provision is R 816 630 and consist of:

Rates	649 746	151 923
Total Provision for Bad Debts on Trade Receivables from non-exchange transactions	<b>649 746</b>	<b>151 923</b>

The provision for doubtful debts on debtors (loans and receivables) exists due to the possibility that not all debts will be recovered. Loans and receivables were assessed individually and grouped together at the Statement of Financial Position date as financial assets with similar credit risk characteristics and collectively assessed for impairment.

# KHAI-MA MUNICIPALITY

## NOTES ON THE FINANCIAL STATEMENTS FOR THE YEAR ENDED 30 JUNE 2011

Concentrations of credit risk with respect to trade receivables are limited due to the municipality's large number of customers. The municipality's historical experience in collection of trade receivables falls within recorded allowances. Due to these factors, management believes that no additional risk beyond amounts provided for collection losses is inherent in the municipality's trade receivables.

		2011 R	2010 R
<b>24</b>	<b>OPERATING LEASE ARRANGEMENTS</b>		
<b>24.1</b>	<b>The Municipality as Lessee</b>		
	Leases not previously recognised - Note	-	-
	<b>Balance on 30 June</b>	-	-
	At the Statement of Financial Position date, where the municipality acts as a lessee under operating leases, it will pay operating lease expenditure as follows:		
	Up to 1 Year	-	-
	1 to 5 Years	-	-
	More than 5 Years	-	-
	<b>Total Operating Lease Arrangements</b>	-	-
	<b>Reconciliation</b>		
	Amount previously recorded (Through change in accounting policy)	-	-
	Change in accounting policy - Note	-	-
	Movement during the year	-	-
	<b>Balance on 30 June</b>	-	-
<b>24.2</b>	<b>The Municipality as Lessor</b>		
	Leases not previously recognised - Note	-	-
	<b>Balance on 30 June</b>	-	-
	At the Statement of Financial Position date, where the municipality acts as a lessor under operating leases, it will receive operating lease income as follows:		
	Up to 1 Year	80 787	82 470
	1 to 5 Years	359 521	287 319
	More than 5 Years	-	-
	<b>Total Operating Lease Arrangements</b>	<b>440 308</b>	<b>369 789</b>
	<b>Reconciliation</b>		
	Amount previously recorded (Through change in accounting policy)	-	-
	Change in accounting policy - Note	-	-
	Movement during the year	-	-
	<b>Balance on 30 June</b>	-	-
<b>25</b>	<b>CASH AND CASH EQUIVALENTS</b>		
	<b>Assets</b>		
	Call Investments Deposits		
	Watersupply Pofadder (007)	6 750	9 242
	Municipal System Improvement Grant (007)	616 265	29 941
	Leave Gratuity (007)	-	-
	Library (007)	42 727	14 296
	Housingfund (007)	13 362	13 362
	Refuse Site (007)	41 764	41 764
	LGSETA (007)	24 751	24 751
	Other Deposits	200 000	200 000
	NDFT Fencing of graveyards (007)	9 181	9 181
	SKEP -Hikingtrail (007)	-	-
	Namakwa District Municipality	154 151	-
	Project Nala	171 892	-
	Build of 30 Houses (013)	-	0
	Municipal Infrastructure Grant (007)	3 676 263	6 633 471
	Finance Management Grant (010)	-	2 296
	Municipal Infrastructure Grant (L-Gov) 016	64 318	244 425
	Primary Bank Account	287 220	-
	Cash Floats	100	100
	<b>Total Cash and Cash Equivalents - Assets</b>	<b>5 308 745</b>	<b>7 222 829</b>
	<b>Liabilities</b>		
	Primary Bank Account	-	729 687
	<b>Total Cash and Cash Equivalents - Liabilities</b>	-	<b>729 687</b>

Call Investments Deposits are held to fund the Unspent Conditional Grants.

KHAI-MA MUNICIPALITY

NOTES ON THE FINANCIAL STATEMENTS FOR THE YEAR ENDED 30 JUNE 2011

	2011 R	2010 R
The municipality has the following bank accounts:		
<b>Current Accounts</b>		
Standard Bank Limited – Pofadder Branch Account Number 04 185 0173	287 220	(729 687)
	<b>287 220</b>	<b>(729 687)</b>
<b>Standard Bank Limited – Pofadder Branch Account Number 04 185 0173</b>		
Cash book balance at beginning of year	(729 687)	(555 619)
Cash book balance at end of year	287 220	(729 687)
Bank statement balance at beginning of year	(640 411)	(503 537)
Bank statement balance at end of year	616 364	(640 411)
The Municipality has a bank overdraft facility of R700,000. R200,000 of the call account balance is pledged as security for the overdraft facility..		

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**PROPERTY RATES**

**Actual**

**Rateable Land and Buildings**

Residential / Commercial Property  
Agricultural Purposes  
State - National / Provincial Services

**Less: Rebates**

**Total Assessment Rates**

**Valuations - 1 JULY 2010**

**Rateable Land and Buildings**

Residential / Commercial Property  
Agricultural Purposes  
State - National / Provincial Services

**Less: Income Forgone**

**Total Assessment Rates**

The applicable rates that are applied to property valuations to determine assessment rates are as follows:-  
Agricultural land - 0.000903 cents per rand, land and improvements -0.024 cents per rand. A discount of 20% was granted to the State

8 598 835	7 818 958
3 047 914	2 732 881
5 550 920	5 086 078
-	-
(6 808 597)	(6 216 815)
<b>1 790 238</b>	<b>1 602 143</b>
358 284 780	355 326 530
118 275 230	238 614 980
231 069 650	108 508 950
8 939 900	8 202 600
(283 691 529)	(282 566 338)
<b>74 593 251</b>	<b>72 760 192</b>

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**GOVERNMENT GRANTS AND SUBSIDIES**

Equitable share  
DWAF operating grants  
DWAF capital grants  
Finance management grant  
Library  
NDM operating grant  
NDM capital grant  
MSIG  
Extention Library  
MIG- Upgrading of sewerage  
MIG - Project Management Unit  
Department of Housing and Local Government  
COGSTA - Nala Project  
EPWP  
Department of Housing and Local Government: Housing  
DBSA-Hiking trail  
LG Seta  
Other grants

**Total Government Grants and Subsidies**

The municipality does not expect any significant changes to the level of grants.

Unspend conditional Dora, specific grants are instructed by use to conditions contain in the grant business plan where the grants are unspent or not committed such funds will be reverred back to National Treasury.

**Equitable Share**

In terms of the Constitution, this grant is used to subsidise the provision of basic services to indigent community members. All registered indigents receive 6kl free water and 50kwh free electricity per month, which is funded from this grant.

9 566 229	7 682 876
-	-
23 213	15 450
2 558 934	2 027 716
216 910	199 082
102 810	518 789
878 692	621 426
124 795	220 059
85 306	196 530
7 209 361	259 375
52 000	-
160 442	72 921
113 440	-
14 508	-
7 815 540	206 015
-	12 169
-	21 458
289 440	-
<b>29 211 620</b>	<b>12 053 865</b>

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**PUBLIC CONTRIBUTIONS AND DONATIONS**

Black Mountain  
BVI Engineers

260 382	1 000
-	2 000
<b>260 382</b>	<b>3 000</b>

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**CONTRIBUTED PROPERTY, PLANT AND EQUIPMENT**

Karsten Farming - Building

-	103 000
-	103 000

KHAI-MA MUNICIPALITY

NOTES ON THE FINANCIAL STATEMENTS FOR THE YEAR ENDED 30 JUNE 2011

		2011 R	2010 R
30	<b>CHANGES IN FAIR VALUE</b>		
30.1	<b>Transactions that gives an increase in surplus</b>		
	Fair value changes in Investment Properties		
	Unamortised discount - Interest		
	<b>Total changes in fair value</b>	-	-
30.2	<b>Transactions that gives an decrease in surplus</b>		
	Unamortised discount - Interest		
	Fair value changes in Investment Properties		
	<b>Total changes in fair value</b>	-	-
31	<b>OTHER REVENUE FROM NON-EXCHANGE TRANSACTIONS</b>		
	None		
32	<b>SERVICE CHARGES</b>		
	<b>Electricity</b>	<b>3 341 144</b>	<b>2 905 149</b>
	Service Charges	3 674 920	3 151 617
	<b>Less:</b> Income Forgone	(333 776)	(246 468)
	<b>Water</b>	<b>1 353 703</b>	<b>1 112 142</b>
	Service Charges	4 519 013	3 658 322
	<b>Less:</b> Income Forgone	(3 165 311)	(2 546 180)
	<b>Refuse Removal</b>	<b>422 216</b>	<b>377 429</b>
	Service Charges	1 503 817	1 317 431
	<b>Less:</b> Income Forgone	(1 081 602)	(940 002)
	<b>Sewerage and Sanitation Charges</b>	<b>606 930</b>	<b>575 806</b>
	Service Charges	1 655 958	1 534 708
	<b>Less:</b> Income Forgone	(1 049 028)	(958 902)
	<b>Other Service Charges - Private Works</b>	-	
	<b>Total Service Charges</b>	<b>5 723 992</b>	<b>4 970 526</b>
33	<b>OTHER INCOME</b>		
	Tariff Charges other	1 121 021	248 568
	Sale of erven	-	-
	<b>Total Other Income</b>	<b>1 121 021</b>	<b>248 568</b>
34	<b>UNAMORTISED DISCOUNT - INTEREST</b>		
	Annuity Loans - Note 4	451 718	498 930
	<b>Total Unamortised Discount - Interest</b>	<b>451 718</b>	<b>498 930</b>

## NOTES ON THE FINANCIAL STATEMENTS FOR THE YEAR ENDED 30 JUNE 2011

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## EMPLOYEE RELATED COSTS

Employee Related Costs - Salaries and Wages	4 027 422	3 500 659
Employee Related Costs - Contributions for UIF, Pensions and Medical Aids	663 596	614 515
Travel, Motor Car, Accommodation, Subsistence and Other Allowances	290 612	368 925
Housing Benefits and Allowances	16 395	29 015
Overtime Payments	393 391	260 688
Bonuses	228 129	225 445
Provision for leave	178 094	198 664
Provision for leave	-	-
Contribution to provision - Post Retirement Medical - Note 8	(27 968)	(26 898)
	<u>5 769 670</u>	<u>5 171 013</u>
<b>Less:</b> Employee Costs allocated elsewhere	-	-
<b>Total Employee Related Costs</b>	<b><u>5 769 670</u></b>	<b><u>5 171 013</u></b>

## KEY MANAGEMENT PERSONNEL

Key management personnel are all appointed on 5-year fixed contracts. There are no post-employment or termination benefits payable to them at the end of the contract periods.

## REMUNERATION OF KEY MANAGEMENT PERSONNEL

*Remuneration of the Municipal Manager*

Annual Remuneration	240 000	299 977
Performance Bonuses	-	-
Bonus	-	18 326
Leave Pay	-	71 013
Car Allowance	-	29 012
Housing benefits and other allowances	4 000	8 440
Contributions to UIF, Medical and Pension Funds	499	18 439
<b>Total</b>	<b><u>244 499</u></b>	<b><u>445 207</u></b>

*Remuneration of the Chief Finance Officer*

Annual Remuneration	225 085	207 490
Performance Bonuses	-	-
Bonus	18 757	16 908
Leave Pay	54 921	-
Car Allowance	94 482	93 150
Housing benefits and other allowances	5 683	5 683
Contributions to UIF, Medical and Pension Funds	72 398	66 175
<b>Total</b>	<b><u>471 326</u></b>	<b><u>389 406</u></b>

*Remuneration of Director : Community and Social Services*

Annual Remuneration	-	129 331
Performance Bonuses	-	-
Bonus	-	18 536
Car Allowance	-	43 097
Leave Pay	-	34 097
Housing benefits and other allowances	-	11 209
Contributions to UIF, Medical and Pension Funds	-	998
<b>Total</b>	<b><u>-</u></b>	<b><u>237 268</u></b>

*Remuneration of Director : Corporate and Support Services*

Annual Remuneration	-	194 971
Acting Remuneration	-	49 250
Performance Bonuses	-	-
Bonus	-	15 888
Car Allowance	-	81 912
Leave Pay	-	60 248
Housing benefits and other allowances	-	16 899
Contributions to UIF, Medical and Pension Funds	-	1 497
<b>Total</b>	<b><u>-</u></b>	<b><u>420 665</u></b>

KHAI-MA MUNICIPALITY

NOTES ON THE FINANCIAL STATEMENTS FOR THE YEAR ENDED 30 JUNE 2011

		2011 R	2010 R
<b>36</b>	<b>REMUNERATION OF COUNCILLORS</b>		
	Mayor	349 782	337 639
	Councillors	632 447	558 820
	Travelling Allowances	335 770	311 513
	Cell Phone Allowances	81 010	71 489
	<b>Total Councillors' Remuneration</b>	<b>1 399 009</b>	<b>1 279 461</b>
	<i>In-kind Benefits</i>		
	The Executive Mayor, Executive Deputy Mayor, Speaker and Executive Committee Members are full-time Councillors. Each is provided with an office and shared secretarial support at the cost of the Municipality. The Executive Mayor may utilise official Council transportation when engaged in official duties.		
<b>37</b>	<b>DEBT IMPAIRMENT</b>		
	Trade Receivables from exchange transactions - Note 22	1 077 444	2 692 637
	Long-term Receivables - Note 20	-	-
	Other Receivables from non-exchange transactions - Note 23	497 823	3 845
	<b>Total Contribution to Bad Debts Provision</b>	<b>1 575 267</b>	<b>2 696 483</b>
<b>38</b>	<b>IMPAIRMENT LOSS/(REVERSAL OF IMPAIRMENT LOSS)</b>		
	Intangible Assets	2 193	-
	Inventory	10 350	3 700
		<b>12 543</b>	<b>3 700</b>
<b>39</b>	<b>FINANCE CHARGES</b>		
	Long-term Liabilities	44 328	70 656
	Employee Benefits	217 538	201 741
	Rehabilitation of Landfil Sites	179 407	169 251
	Overdraft Facilities	6 244	88 922
	<b>Total finance charges</b>	<b>447 516</b>	<b>530 571</b>
<b>40</b>	<b>BULK PURCHASES</b>		
	Electricity	2 666 292	2 102 689
	Water	1 336 700	1 061 215
	<b>Total Bulk Purchases</b>	<b>4 002 992</b>	<b>3 163 904</b>
<b>41</b>	<b>GRANTS AND SUBSIDIES PAID</b>		
	Grants-in-aid and Donations	-	-
	Institutions	-	-
	<b>Total Grants and Susidies</b>	<b>-</b>	<b>-</b>
<b>42</b>	<b>GENERAL EXPENSES</b>		
	Advertisements	26 434	7 936
	Audit Fees	899 692	459 071
	Bank Charges	97 595	93 983
	Cleansing	13 710	10 638
	Commission - sale of electricity	29 810	22 048
	Electricity	625 410	526 889
	Fuel Vehicles	449 885	367 315
	Insurance	354 907	298 912
	Legal Fees	63 689	393 055
	Materials	77 789	75 743
	Membership Fees	107 711	117 855
	Postage and Telephone	302 653	285 010
	Printing and Stationary	127 465	95 891
	Travel Expenses	478 394	451 995
	Uniforms and Protective Clothing	20 915	11 268
	Other Projects	9 054 514	2 671 483
	<b>Total General Expenses</b>	<b>12 730 572</b>	<b>5 889 093</b>

**KHAI-MA MUNICIPALITY**

**NOTES ON THE FINANCIAL STATEMENTS FOR THE YEAR ENDED 30 JUNE 2011**

		<b>2010</b>	<b>2009</b>
		<b>R</b>	<b>R</b>
<b>43</b>	<b>CHANGE IN ACCOUNTING POLICY</b>		
<b>43.1</b>	<b>Non-Current Provisions</b>		
	Balance previously reported	<b>2 988 727</b>	<b>2 750 000</b>
	Implementation of GRAP		
	Reversal of current year contribution - Statement of Financial Performance	(238 727)	-
	Revised current year contribution - Statement of Financial Performance	169 251	-
	Change in the method used to calculate the Provision for Rehabilitation of Landfill Sites	70 857	70 857
	<b>Restated Balance</b>	<b>2 990 109</b>	<b>2 820 857</b>
<b>43.2</b>	<b>Property, Plant and Equipment - Cost Price</b>		
	Balance previously reported	<b>60 706 203</b>	<b>59 304 229</b>
	First-time recognition of Landfill Site	2 661 186	2 661 186
	First-time recognition of Land received from other government departments	2 453 244	2 453 244
	Measurement of contributed PPE previously recognised at provisional amounts	103 000	103 000
	<b>Total</b>	<b>65 923 633</b>	<b>64 521 659</b>
<b>43.3</b>	<b>Property, Plant and Equipment - Accumulated Depreciation</b>		
	Balance previously reported	<b>(14 831 944)</b>	<b>(13 404 535)</b>
	Implementation of GRAP		
	Accumulated depreciation with regards to Landfill Site recognised for the first time	(380 169)	(380 169)
	Revised current year depreciation - Statement of Financial Performance	(380 169)	-
	Backlog depreciation recognised with regards to infrastructure assets	4 596 479	4 596 479
	Accumulated depreciation with regards to other loose assets restated	5 201	5 201
	Revised current year depreciation - Statement of Financial Performance	(1 525)	-
	<b>Total</b>	<b>(10 992 128)</b>	<b>(9 183 024)</b>
<b>43.4</b>	<b>Accumulated Surplus</b>		
	Balance previously reported	<b>33 561 168</b>	<b>35 106 051</b>
	Accumulated depreciation with regards to Landfill Site recognised for the first time	(380 169)	(380 169)
	Revised current year depreciation - Statement of Financial Performance	(380 169)	-
	Backlog depreciation recognised with regards to infrastructure assets	4 596 479	4 596 479
	Accumulated depreciation with regards to other loose assets restated	5 201	5 201
	Measurement of contributed PPE previously recognised at provisional amounts	103 000	-
	Correction of Offset Depreciation of Revaluation Reserve - prior to 1 July 2009	5 133	5 133
	Correction of Offset Depreciation of Revaluation Reserve - 2009/2010	(32 684)	-
	Revised current year depreciation - Statement of Financial Performance	(1 525)	-
	First-time recognition of Land received from other government departments	2 453 244	2 453 244
	Derecognition of previous provision for rehabilitation of Landfill Site	2 750 000	2 750 000
	Reversal of current year contribution - Statement of Financial Performance	238 727	-
	Revised current year contribution - Statement of Financial Performance	(169 251)	-
	Revised current year contribution - Prior Financial Year	-	-
	Revised prior period contributions to provision for rehabilitation of Landfill Site	(159 671)	(159 671)
	<b>Total</b>	<b>42 589 481</b>	<b>44 376 267</b>
<b>44</b>	<b>RECONCILIATION BETWEEN NET SURPLUS/(DEFICIT) FOR THE YEAR AND CASH GENERATED/(ABSORBED) BY OPERATIONS</b>		
	Surplus/(Deficit) for the year	9 489 970	(1 929 332)
	<b>Adjustments for:</b>		
	Depreciation and amortisation	1 756 003	1 821 687
	Impairments	12 543	-
	Loss on disposal of Property, Plant and Equipment	33 726	135
	Contribution from/to provisions - Non-Current	179 407	169 251
	Contribution from/to Employee Benefits - Current	178 094	198 664
	Contribution from/to Employee Benefits - Current - Expenditure incurred	(123 677)	(206 629)
	Contribution from/to Employee Benefits - Non-Current	287 831	266 103
	Contribution from/to Employee Benefits - Non-Current - Expenditure incurred	(98 261)	(91 260)
	Contribution from/to Employee Benefits - Non-Current - Actuarial losses	474 957	-
	Contribution to provisions - Bad debt	1 575 267	2 696 483
	Bad Debt Written off	(4 838)	(5 148 877)
	Unamortised discount - Interest - Expenditure	451 718	498 930
	Investment income	(423 934)	(243 593)
	Interest paid	447 516	530 571
	Operating Surplus/(Deficit) before changes in working capital	14 236 323	(1 437 867)
	Changes in working capital	(5 134 887)	8 194 404
	Increase/(Decrease) in Trade and Other Payables	1 605 041	(755 937)
	Increase/(Decrease) in Unspent Conditional Government Grants and Receipts	(2 776 365)	6 143 703
	Increase/(Decrease) in Taxes	(938 348)	(78 576)
	(Decrease)/increase in housing development fund	-	-
	(Increase)/Decrease in Inventory	(2 085 687)	(2 995)
	(Increase)/Decrease in Trade Receivables from exchange transactions	(1 114 536)	2 223 934
	(Increase)/Decrease in Other Receivables from non-exchange transactions	175 009	664 275
	<b>Cash generated/(absorbed) by operations</b>	<b>9 101 436</b>	<b>6 756 536</b>



KHAI-MA MUNICIPALITY

NOTES ON THE FINANCIAL STATEMENTS FOR THE YEAR ENDED 30 JUNE 2011

	2011 R	2010 R
<b>45 CASH AND CASH EQUIVALENTS</b>		
Cash and cash equivalents included in the cash flow statement comprise the following:		
Call Investments Deposits - Note 25	5 021 424	7 222 729
Cash Floats - Note 25	100	100
Bank - Note 25	287 220	-
Bank Balance / (Bank overdraft) - Note 25	-	(729 687)
<b>Total cash and cash equivalents</b>	<b>5 308 745</b>	<b>6 493 142</b>
<b>46 CASH RECONCILIATION</b>		
Cash and Cash Equivalents - Note 25	5 308 745	6 493 142
Investments - Note 19	-	-
	5 308 745	6 493 142
Less:	6 132 077	8 907 726
Unspent Committed Conditional Grants - Note 11	6 117 999	8 894 364
Unspent Public Contribution - Note 12	-	-
VAT - Note 13	-	-
Cash Portion of Housing Development Fund - Note 2	14 078	13 362
<b>Net cash resources available for internal distribution</b>	<b>(823 333)</b>	<b>(2 414 584)</b>
<b>Allocated to:</b>		
Capital Replacement Reserve	-	-
<b>Resources available for working capital requirements</b>	<b>(823 333)</b>	<b>(2 414 584)</b>
<b>47 UTILISATION OF LONG-TERM LIABILITIES RECONCILIATION</b>		
Long-term Liabilities - Note 4	490 792	971 985
Used to finance property, plant and equipment - at cost	(490 792)	(971 985)
	-	-
Cash set aside for the repayment of long-term liabilities		
<b>Cash invested for repayment of long-term liabilities</b>	<b>-</b>	<b>-</b>
Long-term liabilities have been utilized in accordance with the Municipal Finance Management Act		

KHAI-MA MUNICIPALITY

NOTES ON THE FINANCIAL STATEMENTS FOR THE YEAR ENDED 30 JUNE 2011

48	BUDGET COMPARISONS	2011 R (Actual)	2011 R (Budget)	2011 R (Variance)	2011 (%)
48.1	<b>Operational</b>				
	<b>Revenue by source</b>				
	Property Rates	1 790 238	1 713 630	76 608	4.47%
	Government Grants and Subsidies	29 211 620	44 647 640	(15 436 020)	-34.57%
	Public Contributions and Donations	260 382	500 000	(239 618)	-47.92%
	Fines	21 435	40 000	(18 565)	-46.41%
	Third Party Payments	-	-	-	0.00%
	Stock Adjustments	-	-	-	0.00%
	Actuarial Gains	-	-	-	0.00%
	Property Rates - Penalties & Collection Charges	-	-	-	0.00%
	Service Charges	5 723 992	8 569 020	(2 845 028)	-33.20%
	Rental of Facilities and Equipment	118 100	96 000	22 100	23.02%
	Interest Earned - External Investments	423 934	300 000	123 934	41.31%
	Interest Earned - Outstanding Debtors	617 326	452 000	165 326	36.58%
	Licences and Permits	24 265	16 200	8 065	49.79%
	Agency Services	104 707	100 000	4 707	4.71%
	Other Revenue	1 121 021	43 600	1 077 421	2471.15%
	Unamortised Discount - Interest	-	-	-	0.00%
	Dividends Received	-	-	-	0.00%
	Contributed PPE	-	2 453 250	(2 453 250)	-100.00%
		39 417 020	58 931 340	(19 514 320)	-19.84%
	<b>Expenditure by nature</b>				
	Employee related costs	(5 769 670)	(6 305 940)	536 270	-8.50%
	Remuneration of Councillors	(1 399 009)	(1 523 510)	124 501	-8.17%
	Debt Impairment	(1 575 267)	(1 570 080)	(5 187)	0.33%
	Collection costs	-	-	-	
	Increase in Provision for Rehabilitation of Landfill Site	-	(200 000)	200 000	-100.00%
	Depreciation and Amortisation	(1 756 003)	(1 482 550)	(273 453)	18.44%
	Impairments	-	-	-	
	Repairs and Maintenance	(1 015 061)	(1 038 560)	23 499	-2.26%
	Unamortised discount - Interest	(451 718)	(451 720)	2	0.00%
	Actuarial losses	(474 957)	-	(474 957)	0.00%
	Finance Charges	(447 516)	(275 340)	(172 176)	62.53%
	Bulk Purchases	(4 002 992)	(4 085 000)	82 008	-2.01%
	Contracted services	(210 313)	(220 000)	9 687	-4.40%
	Grants and Subsidies Paid	-	-	-	
	Donations	(47 702)	(49 500)	1 798	-3.63%
	General Expenses	(12 730 572)	(22 934 290)	10 203 718	-44.49%
	Changes in Fair Value	-	-	-	
		(29 880 781)	(40 136 490)	10 255 709	-25.55%
	<b>Other Gains/Losses</b>				
	Loss on disposal of Property, Plant and Equipment	(33 726)	-	(33 726)	
	Impairment Loss/(Reversal of Impairment Loss)	(12 543)	-	(12 543)	
		(46 269)	-	(46 269)	
	<b>Net Surplus for the year</b>	<b>9 489 970</b>	<b>18 794 850</b>	<b>(9 304 880)</b>	<b>-49.51%</b>

Details of material variances

Due to service providers not being able to deliver material on-time the housing projects were not completed and therefor the under expenditure occurred.

48.2 **Expenditure by Vote**

Municipal Manager	(2 534 065)	(2 667 870)	133 805	-5.02%
Finance	(4 601 504)	(6 296 220)	1 694 716	-26.92%
Corporate Services	(5 316 731)	(5 168 710)	(148 021)	2.86%
Infrastructure	(13 105 744)	(13 044 090)	(61 654)	0.47%
Economic Development	(6 037 199)	(14 636 550)	8 599 351	-58.75%
Less Internal Charges	1 668 192	1 676 950	(8 758)	-0.52%
	(29 927 050)	(40 136 490)	10 209 440	-25.44%

Details of material variances

Due to service providers not being able to deliver material on-time the housing projects were not completed and therefor the under expenditure occurred.

**KHAI-MA MUNICIPALITY**

**NOTES ON THE FINANCIAL STATEMENTS FOR THE YEAR ENDED 30 JUNE 2011**

	2011 R (Actual)	2011 R (Budget)	2011 R (Variance)	2011 (%)
<b>48.3 Capital expenditure by vote</b>				
Municipal Manager	352 705	364 000	(11 295)	-3.10%
Finance	-	2 453 250	(2 453 250)	-100.00%
Corporate Services	574 055	2 322 500	(1 748 445)	-75.28%
Infrastructure	8 827 084	14 216 360	(5 389 276)	-37.91%
Economic Development	-	-	-	0.00%
	<u>9 753 844</u>	<u>19 356 110</u>	<u>(9 602 266)</u>	<u>-49.61%</u>

**Details of material variances**

Under expenditure due to projects being rolled over to next financial year.

**49 UNAUTHORISED, IRREGULAR, FRUITLESS AND WASTEFUL EXPENDITURE DISALLOWED**

**49.1 Unauthorised expenditure**

Reconciliation of unauthorised expenditure:

Opening balance	2 651 419	-
Unauthorised expenditure current year	209 674	2 651 419
Approved by Council or condoned	(2 651 419)	-
Transfer to receivables for recovery	-	-
Unauthorised expenditure awaiting authorisation	<u>209 674</u>	<u>2 651 419</u>

Incident	Disciplinary steps/criminal proceedings
Over expenditure of approved budget for the current financial year - R209 674	To be investigated

**49.2 Fruitless and wasteful expenditure**

Reconciliation of fruitless and wasteful expenditure:

Opening balance	811 486	543 932
Fruitless and wasteful expenditure current year	-	273 098
Condoned or written off by Council	(811 486)	(5 544)
Transfer to receivables for recovery - not condoned	-	-
Fruitless and wasteful expenditure awaiting condonement	<u>-</u>	<u>811 486</u>

Incident	Disciplinary steps/criminal proceedings
Interest paid to Supplier: Eskom - R4 139	Approved by council
Donations made not allowed in terms of the MFMA - R68,044	Approved by council
Legal Fees - R205,055 (2009: R538,388)	Approved by council
Additional payment to MD Paavo - R1 405	Approved by council

**49.3 Irregular expenditure**

Reconciliation of irregular expenditure:

Opening balance	18 727 815	15 744 595
Irregular expenditure current year	7 265 251	2 983 221
Condoned or written off by Council	(18 727 815)	-
Transfer to receivables for recovery - not condoned	-	-
Irregular expenditure awaiting condonement	<u>7 265 251</u>	<u>18 727 815</u>

Incident	Disciplinary steps/criminal proceedings
Payment made to employee, without renewal of contract - R231 706	To be investigated
Unspent grants of R1,424,233 was not cash-backed on 30 June 2011. These grants was used to finance operating expenditure. The funds were paid back and invested during July 2011.	Funds were paid back and invested during July 2011.
Appointment of supplier by former Accounting Officer without following supply chain management procedures - R5 609 311	Under investigation

KHAI-MA MUNICIPALITY

NOTES ON THE FINANCIAL STATEMENTS FOR THE YEAR ENDED 30 JUNE 2011

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ADDITIONAL DISCLOSURES IN TERMS OF MUNICIPAL FINANCE MANAGEMENT ACT

50.1 **Contributions to organised local government - [MFMA 125 (1)(b)] - SALGA CONTRIBUTIONS**

Opening balance	-	-
Council subscriptions	107 710	109 838
Amount paid - current year	(107 710)	(109 838)
Amount paid - previous years		
<b>Balance unpaid (included in creditors)</b>	<b>-</b>	<b>-</b>

50.2 **Audit fees - [MFMA 125 (1)(b)]**

Opening balance	1 401 530	1 375 690
Current year audit fee	999 809	523 341
External Audit - Auditor-General	999 809	523 341
Internal Audit	-	-
Audit Committee	-	-
Amount paid - current year	(270 034)	(497 501)
Amount paid - previous year	-	-
<b>Balance unpaid (included in creditors)</b>	<b>2 131 305</b>	<b>1 401 530</b>

50.3 **VAT - [MFMA 125 (1)(b)]**

Opening balance	402 914	
Amounts received - current year	(1 506 686)	
Amounts claimed - current year (payable)	2 445 034	
Amount paid - current year		
Amount paid - previous year		
<b>Closing balance</b>	<b>1 341 262</b>	<b>402 914</b>

50.4 **PAYE and UIF - [MFMA 125 (1)(b)]**

Opening balance	-	-
Current year payroll deductions	950 683	870 605
Amount paid - current year	(950 683)	(870 605)
<b>Balance unpaid (included in creditors)</b>	<b>-</b>	<b>-</b>

50.5 **Pension and Medical Aid Deductions - [MFMA 125 (1)(b)]**

Opening balance	-	-
Current year payroll deductions and Council Contributions	1 013 012	995 246
Amount paid - current year	(1 013 012)	(995 246)
Amount paid - previous year	-	-
<b>Balance unpaid (included in creditors)</b>	<b>-</b>	<b>-</b>

50.6 **Councillor's arrear consumer accounts - [MFMA 125 (1)(b)]**

The following Councillors had arrear accounts for more than 90 days as at 30 JUNE 2011:

# KHAI-MA MUNICIPALITY

## NOTES ON THE FINANCIAL STATEMENTS FOR THE YEAR ENDED 30 JUNE 2011

The following Councillors had arrear accounts for more than 90 days as at :

### 30th June 2010

	Total	Outstanding less than 90 days	Outstanding more than 90 days
Councillor M. Groenewaldt	5 478	852	4 626
Councillor S.S. Brandt	2 116	543	1 573
Councillor J.J. Swartbooi	549	301	248
Councillor A..E. Diergaardt	7 596	913	6 683

	Highest Amount Outstanding	Ageing
Councillor M. Bruintjies	6 683	90 days +

The following Councillors had arrear accounts outstanding for more than 90 days during the year:

### 30th June 2011

	Total	Outstanding less than 90 days	Outstanding more than 90 days
Councillor S. Magerman	4 231	635	3 596
Councillor A.J. Jonas	3 070	77	2 993
Councillor L.H. van Rooi	4 388	113	4 275
Councillor S. Basson	7 596	266	6 683
Councillor S. April	8 761	986	7 775

	Highest Amount Outstanding	Ageing
Councillor S. April	7 775	90 days +

### 50.7 Non-compliance with Chapter 14 of the Municipal Finance Management Act

Non-compliance to the Supply Chain Management Regulations were identified on the following categories:

	Less than R30,000	Between R30,001 and R200,000	Between R200,001 and R2,000,000	More than R2,000,001
Springbok Motor Rewinds	51 721	-	-	-
W.J. van Zyl	-	168 792	-	-
KLK	120 398	-	-	-
Voltex	7 440	-	-	-
Viking Pony Africa Pumps	23 365	-	-	-
Andrag Agrico	57 150	-	-	-
Plant Serve Engineering	58 298	-	-	-
	<u>318 372</u>	<u>168 792</u>	<u>-</u>	<u>-</u>

### 50.8 Material losses - [MFMA 125 (2)(d)]

The following material distribution losses incurred during the year:

	2011 R	2010 R
Water (%)	<u>16.00</u>	<u>17.00</u>
Water (Rand Value)	<u>617 895</u>	<u>556 624</u>
Electricity (%)	<u>13.00</u>	<u>13.11</u>
Electricity (Rand Value)	<u>573 447</u>	<u>507 384</u>

The municipality provides water services to indigent consumers. Consumptions used by indigent consumers are more than the free 6kl water they received. No action was taken to recover the additional consumptions from indigent consumers and based on history, outstanding amounts are not paid by indigent consumers. The cost to provide these services amounts to:

<u>743 744</u>	<u>722 380</u>
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# KHAI-MA MUNICIPALITY

## NOTES ON THE FINANCIAL STATEMENTS FOR THE YEAR ENDED 30 JUNE 2011

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### CAPITAL COMMITMENTS

#### Commitments in respect of capital expenditure:

Approved and contracted for:

Infrastructure  
Community  
Other

2011  
R

2010  
R

6 876 001

-

6 876 001

-

-

-

Approved but not yet contracted for

-

-

Infrastructure  
Community  
Other

-

-

-

#### Total

6 876 001

-

This expenditure will be financed from:

External Loans  
Government Grants  
Own Resources  
District Council Grants

-

-

6 876 001

-

-

-

6 876 001

-

2011  
R

2010  
R

52

### FINANCIAL RISK MANAGEMENT

The activities of the municipality expose it to a variety of financial risks, including market risk (comprising fair value interest rate risk, cash flow interest rate risk and price risk), credit risk and liquidity risk. The municipality's overall risk management programme focuses on the unpredictability of financial markets and seeks to minimise potential adverse effects on the municipality's financial performance.

#### (a) Foreign Exchange Currency Risk

The municipality does not engage in foreign currency transactions.

#### (b) Price Risk

The municipality is not exposed to price risk.

#### (c) Interest Rate Risk

As the municipality has significant interest-bearing liabilities, the entity's income and operating cash flows are substantially dependent on changes in market interest rates.

The municipality analyse its potential exposure to interest rate changes on a continuous basis. Different scenarios are simulated which include refinancing, renewal of current positions, alternative financing and hedging. Based on these scenarios, the entity calculates the impact that a change in interest rates will have on the surplus/deficit for the year. These scenarios are only simulated for liabilities which constitute the majority of interest bearing liabilities.

The municipality did not hedge against any interest rate risks during the current year.

The potential impact on the entity's surplus/deficit for the year due to changes in interest rates were as follow:

0.5% (2010 - 0.5%) Increase in interest rates  
0.5% (2010 - 0.5%) Decrease in interest rates

23 438

(23 438)

## NOTES ON THE FINANCIAL STATEMENTS FOR THE YEAR ENDED 30 JUNE 2011

## (d) Credit Risk

Credit risk is the risk that a counter party to a financial or non-financial asset will fail to discharge an obligation and cause the Municipality to incur financial loss.

Credit risk arises mainly from cash and cash equivalents, instruments and deposits with banks and financial institutions, as well as credit exposures to consumer and grant debtors.

Trade and other debtors are disclosed net after provisions are made for impairment and bad debts. Trade debtors comprise of a large number of ratepayers, dispersed across different sectors and geographical areas. Ongoing credit evaluations are performed on the financial condition of these debtors. Credit risk pertaining to trade and other debtors is considered to be moderate due the diversified nature of debtors and immaterial nature of individual balances. In the case of consumer debtors the municipality effectively has the right to terminate services to customers but in practice this is difficult to apply. In the case of debtors whose accounts become in arrears, Council endeavours to collect such accounts by "levying of penalty charges", "demand for payment", "restriction of services" and, as a last resort, "handed over for collection", whichever procedure is applicable in terms of Council's Credit Control and Debt Collection Policy.

All rates and services are payable within 30 days from invoice date. Refer to note 20 for all balances outstanding longer than 30 days. These balances represent all debtors at year end which defaulted on their credit terms. Also refer to note 20 for balances included in receivables that were re-negotiated for the period under review.

No trade and other receivables are pledged as security for financial liabilities.

Due to the short term nature of trade and other receivables the carrying value disclosed in note 20 of the financial statements is an approximation of its fair value. Interest on overdue balances are included at prime lending rate plus 1% where applicable.

The provision for bad debts could be allocated between the different classes of debtors as follows:

	2011 %	2011 R	2010 %	2010 R
Electricity	5.86%	306 276	1.12%	41 051
Water	46.33%	2 419 671	75.58%	2 760 467
Refuse	17.00%	887 666	10.93%	399 367
Sewerage	18.37%	959 508	8.20%	299 631
Taxes - Rates	12.44%	649 746	4.16%	151 923
	100.00%	5 222 868	100.00%	3 652 439

The entity only deposits cash with major banks with high quality credit standing. No cash and cash equivalents were pledged as security for financial liabilities and no restrictions were placed on the use of any cash and cash equivalents for the period under review. Although the credit risk pertaining to cash and cash equivalents are considered to be low, the maximum exposure are disclosed below.

The risk pertaining to unpaid conditional grants and subsidies are considered to be very low. Amounts are receivable from national and provincial government and there are no expectation of counter party default.

Long-term Receivables and Other Debtors are individually evaluated annually at Balance Sheet date for impairment or discounting. A report on the various categories of debtors is drafted to substantiate such evaluation and subsequent impairment / discounting, where applicable.

Financial assets exposed to credit risk at year end are as follows:

	2011 R	2010 R
Investments	-	-
Long Term Receivables	-	-
Trade receivables from exchange transactions	1 300 459	1 258 528
Other receivables from non-exchange transactions	1 034 394	1 707 227
Current Portion of Long-term Receivables	-	-
Short-term Investment Deposits	5 021 424	7 222 729
Bank and Cash Balances	287 320	100
<b>Maximum Credit Risk Exposures</b>	<b>7 643 598</b>	<b>10 188 584</b>

NOTES ON THE FINANCIAL STATEMENTS FOR THE YEAR ENDED 30 JUNE 2011

(d) Liquidity Risk

Prudent liquidity risk management includes maintaining sufficient cash and marketable securities, the availability of funding from an adequate amount of committed credit facilities.

The entity's risk to liquidity is a result of the funds available to cover future commitments. The entity manages liquidity risk through an ongoing review of future commitments and credit facilities.

The table below analyses the entity's financial liabilities into relevant maturity groupings based on the remaining period at the financial year end to the contractual maturity date. The amounts disclosed in the table are the contractual undiscounted cash flows. Balances due within 12 months equal their carrying balances as the impact of discounting is not significant.

2011	Less than 1 year	Between 1 and 5 years	Between 5 and 10 years	More than 10 years
Long Term liabilities	25 992	88 806	-	-
Capital repayments	16 965	73 942	-	-
Interest	9 027	14 864	-	-
Trade and Other Payables	5 906 688	-	-	-
Unspent conditional government grants and receipts	6 117 999	-	-	-
	<b>12 050 680</b>	<b>88 806</b>	<b>-</b>	<b>-</b>
2010	Less than 1 year	Between 1 and 5 years	Between 5 and 10 years	More than 10 years
Long Term liabilities	629 561	418 772	-	-
Capital repayments	588 905	408 904	-	-
Interest	40 657	9 867	-	-
Trade and Other Payables	4 301 648	-	-	-
Unspent conditional government grants and receipts	8 894 364	-	-	-
	<b>13 825 574</b>	<b>418 772</b>	<b>-</b>	<b>-</b>

2011  
R

2010  
R

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FINANCIAL INSTRUMENTS

In accordance with GRAP 104 the financial assets of the municipality are classified as follows:

<u>Financial Assets</u>	<u>Classification</u>		
<b>Investments</b>			
Fixed Deposits	Financial instruments at amortised cost	-	-
<b>Long-term Receivables</b>			
Staff Loans	Financial instruments at amortised cost	-	-
<b>Consumer Debtors</b>			
Trade receivables from exchange transactions	Financial instruments at amortised cost	1 300 459	1 258 528
Other receivables from non-exchange transactions	Financial instruments at amortised cost	1 034 394	1 707 227
<b>Current Portion of Long-term Receivables</b>			
Staff Loans	Financial instruments at amortised cost	-	-
<b>Short-term Investment Deposits</b>			
Call Deposits	Financial instruments at amortised cost	5 021 424	7 222 729
<b>Bank Balances and Cash</b>			
Bank Balances	Financial instruments at amortised cost	287 220	-
Cash Floats and Advances	Financial instruments at amortised cost	100	100
<b>Financial Liability</b>	<b>Classification</b>		
<b>Non-Current Liabilities</b>			
Long-term Liabilities	Financial instruments at amortised cost	490 792	971 985
<b>Current Liabilities</b>			
Trade and other payables	Financial instruments at amortised cost	5 906 688	4 301 648
Unspent Conditional Grants	Financial instruments at amortised cost	6 117 999	8 894 364
Consumer Deposits	Financial instruments at amortised cost	51 049	54 448
<b>Bank Balances and Cash</b>			
Bank Balances	Financial instruments at amortised cost	-	729 687



KHAI-MA MUNICIPALITY

NOTES ON THE FINANCIAL STATEMENTS FOR THE YEAR ENDED 30 JUNE 2011

	2011 R	2010 R
<b>SUMMARY OF FINANCIAL ASSETS</b>		
Financial instruments at amortised cost	7 643 598	10 188 584
	<b>7 643 598</b>	<b>10 188 584</b>
<b>SUMMARY OF FINANCIAL LIABILITIES</b>		
Financial instruments at amortised cost	12 566 529	14 952 132
	<b>12 566 529</b>	<b>14 952 132</b>

**54 EVENTS AFTER THE REPORTING DATE**

The Municipality is not aware of any events after the reporting date that can affect the annual financial statements.

**55 IN-KIND DONATIONS AND ASSISTANCE**

None

**56 PRIVATE PUBLIC PARTNERSHIPS**

Council has not entered into any private public partnerships during the financial year.

**57 COMPARISON WITH THE BUDGET**

The comparison of the municipality's actual financial performance with that budgeted, is set out in Annexures "E (1) and E (2)".

**58 CONTINGENT LIABILITY**

The municipality is not aware of any contingent liabilities.

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**KHAI-MA MUNICIPALITY**

**NOTES ON THE FINANCIAL STATEMENTS FOR THE YEAR ENDED 30 JUNE 2011**

			2011 R	2010 R
<b>59</b>	<b>RELATED PARTIES</b>			
	Key Management and Councillors receive and pay for services on the same terms and conditions as other ratepayers / residents.			
<b>59.1</b>	<b>Related Party Transactions</b>			
		<b>Rates</b>	<b>Service Charges</b>	<b>Other</b>
	<b>Year ended 30 JUNE 2011</b>			<b>Outstanding Balances</b>
	Councillors	801	19 676	-
	Municipal Manager and Section 57 Employees	273	332	-
				20 477 605
	<b>Year ended 30 JUNE 2010</b>			
	Councillors		15 739	-
	Municipal Manager and Section 57 Employees	619	1 463	-
				15 739 2 082
	The rates, service charges and other charges are in accordance with approved tariffs that were advertised to the public. No bad debt expenses have been recognised in respect of amounts owed by related parties.			
<b>59.2</b>	<b>Related Party Loans</b>			
	Since 1 July 2004 loans to councillors and senior management employees are not permitted. Loans granted prior to this date, together with the conditions, are disclosed in note 20 to the Annual Financial Statements.			
<b>59.3</b>	<b>Compensation of key management personnel</b>			
	The compensation of key management personnel is set out in note 35 to the Annual Financial Statements.			
<b>59.4</b>	<b>Other related party transactions</b>			
	The following purchases were made during the year where Councillors or staff have an			
	<u>Councillor/Staff Member</u>	<u>Entity</u>		
<b>60</b>	<b>Process to comply fully with</b>			
	The municipality adopted a phased-in approach in order to comply fully with the implementation of GRAP. The municipality is classified by the National Treasury as a low capacity municipality and must comply with GRAP by 30 June 2012.			
<b>61</b>	<b>Exemptions taken according to those in Directive 4 - Transitional Provisions for Medium and Low Capacity Municipalities.</b>			
<b>61.1</b>	<b>GRAP 19 -Provisions, Contingent Liabilities and Contingent Assets</b>			
	The municipality opted to take advantage of the transitional provisions as contained in Directive 4 of the Accounting Standards Board, issued in March 2009. The municipality measured all provisions, contingent liabilities or contingent assets relating to Property, Plant and Equipment.			
<b>61.2</b>	<b>GRAP 100 -Non-current assets and discontinued operations</b>			
	The municipality opted to take advantage of the transitional provisions as contained in Directive 4 of the Accounting Standards Board, issued in March 2009. The municipality did not recognise non-current assets held for sale and discontinued operations relating to Inventories, Investment Properties, Property, Plant and Equipment, Agriculture and Intangible Assets which are not recognised in terms of the transitional provisions relating to those standards:			

## NOTES ON THE FINANCIAL STATEMENTS FOR THE YEAR ENDED 30 JUNE 2011

## 61.3 GRAP 16 - Investment Properties

The municipality opted to take advantage of the transitional provisions as contained in Directive 4 of the Accounting Standards Board, issued in March 2009. The municipality did not recognise all the Investment Properties:

The municipality is currently in a process of identifying all Investment Properties and have it valued in terms of GRAP 16 and it is expected that this process will be completed for inclusion in the 2012 financial statements.

Since the previous reporting date the following Investment Properties were measured at fair value in accordance with GRAP 16 and restated retrospectively:

Land with undetermined use;  
Land;  
Buildings; and  
Land and Buildings.  
Total not previously recognised now restated retrospectively

R	-	R	-
-	-	-	-
-	-	-	-
-	-	-	-
-	-	-	-
<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>

## 61.4 GRAP 102 - Intangible Assets

The municipality opted to take advantage of the transitional provisions as contained in Directive 4 of the Accounting Standards Board, issued in March 2009. The municipality did not recognise or measure all the Intangible Assets in accordance with the standard, including the following:

Computer Software;  
Intangible assets financed by way of finance leases;  
Intangible assets transferred as a result of the transfer of functions; and  
Servitudes.

The municipality is currently in a process of identifying all Intangible Assets and have it valued in terms of GRAP 102 and it is expected that this process will be completed for inclusion in the 2012 financial statements. It is possible that certain intangible assets are currently being recognised as Property, Plant and Equipment.

Since the previous reporting date the following Intangible Assets were measured in accordance with GRAP 102 and restated retrospectively:

Computer software;  
Accumulated amortisation on computer software  
Total not previously recognised now restated retrospectively

-	-	-	-
454 851	433 668		
(68 156)	(5 539)		
<u>454 851</u>	<u>428 129</u>		

## 61.5 GRAP 12 - Inventories

The municipality opted to take advantage of the transitional provisions as contained in Directive 4 of the Accounting Standards Board, issued in March 2009. The municipality did not recognise the following inventories:

Water;  
Land held for sale; and  
Other (list).

The municipality has identified all inventory which must be measured in terms of GRAP 12.

Since the previous reporting date the following inventories were measured in accordance with GRAP 12 and restated retrospectively:

Water;  
Land held for sale; and  
Consumable Stores

R	-	R	-
17 718	14 779		
1 041 500	1 051 850		
13 507	-		
<u>1 072 725</u>	<u>1 066 629</u>		

## 61.6 GRAP 17 - Property, Plant and Equipment

Exemptions taken according to Directive 4 - Transitional Provisions for Medium and Low Capacity Municipalities. Refer to Note 13

## 62 Going Concern

During the current financial year the Municipality experienced severe cash flow problems. The is due to the fact that the Municipality has a very small income base because of to the severe number of unemployed households within the region. The Municipality is dependant on grant funding due to the small income base. Should the Equitable Share not be increased substantially in the future, the Municipality will be faced with serious going concern problems.





























































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**KHAI-MA MUNICIPALITY**  
**NOTES ON THE FINANCIAL STATEMENTS FOR THE YEAR ENDED 30 JUNE 2011**

**15 PROPERTY, PLANT AND EQUIPMENT**

	Cost/Revaluation									Accumulated Depreciation						Carrying Value
	Opening Balance	Transfers	Change in Accounting Policy	Additions	Revaluation	Write-off	Under Construction	Transfer to Inventory	Closing Balance	Opening Balance	Change in Accounting Policy	Additions	Revaluation	Write-off	Closing Balance	
<b>Land and Buildings</b>																
Land	26 878 339		-	-	-	-	-	-	26 878 339	-	-	-	-	-	-	26 878 339
Buildings	2 026 725		-	-	-	(15 622)	-	-	2 011 103	252 786	-	71 149	-	(5 098)	318 837	1 692 266
	<b>28 905 064</b>		-	-	-	<b>(15 622)</b>	-	-	<b>28 889 442</b>	<b>252 786</b>	-	<b>71 149</b>	-	<b>(5 098)</b>	<b>318 837</b>	<b>28 570 605</b>
<b>Infrastructure</b>																
Roads and Streets	2 341 122			510 289	-	(784)	146 160	(13 507)	2 983 280	788 192	-	96 428	-	(784)	883 837	2 099 443
Security Measures	20 121			218 386	-	-	-	-	238 508	5 763	-	1 873	-	-	7 637	230 871
Beach Improvements	-			-	-	-	-	-	-	-	-	-	-	-	-	-
Sewerage Mains and Purification	3 575 980			-	-	-	40 111	-	3 616 091	718 593	-	74 183	-	-	792 776	2 823 315
Electricity mains	3 858 106			-	-	-	40 111	-	3 898 216	1 068 255	-	79 899	-	-	1 148 154	2 750 062
Electricity Peak Load equipment	-			-	-	-	-	-	-	-	-	-	-	-	-	-
Water Mains & Purification	11 038 778			6 373	-	(1 677)	8 055 530	-	19 099 004	4 751 312	-	235 501	-	(1 677)	4 985 135	14 113 869
	<b>20 834 107</b>		-	<b>735 049</b>	-	<b>(2 461)</b>	<b>8 281 912</b>	<b>(13 507)</b>	<b>29 835 099</b>	<b>7 332 116</b>	-	<b>487 884</b>	-	<b>(2 461)</b>	<b>7 817 539</b>	<b>22 017 560</b>
<b>Community Assets</b>																
Libraries	-		-	-	-	-	85 306	-	85 306	-	-	-	-	-	-	85 306
Recreation Grounds	6 342 735		-	-	-	-	-	-	6 342 735	567 573	-	138 998	-	-	706 571	5 636 164
Fire, Safety and Emergency	59 222		-	-	-	-	-	-	59 222	2 903	-	8 796	-	-	11 698	47 524
Care Centre	-		-	-	-	-	-	-	-	-	-	-	-	-	-	-
Clinics and Hospitals	3 407 474		-	-	-	(295 000)	209 274	-	3 321 748	663 790	-	126 073	-	(295 000)	494 863	2 826 885
Community Centres	-		-	-	-	-	-	-	-	-	-	-	-	-	-	-
Public Conveniences	-		-	-	-	-	-	-	-	-	-	-	-	-	-	-
	<b>9 809 431</b>		-	-	-	<b>(295 000)</b>	<b>294 580</b>	-	<b>9 809 011</b>	<b>1 234 266</b>	-	<b>273 867</b>	-	<b>(295 000)</b>	<b>1 213 132</b>	<b>8 595 878</b>
<b>Heritage Assets</b>																
Historical Buildings	-		-	-	-	-	-	-	-	-	-	-	-	-	-	-
Painting & Art Galleries	-		-	-	-	-	-	-	-	-	-	-	-	-	-	-
	-		-	-	-	-	-	-	-	-	-	-	-	-	-	-
<b>Total carried forward</b>	<b>59 548 602</b>		-	<b>735 049</b>	-	<b>(313 083)</b>	<b>8 576 492</b>	<b>(13 507)</b>	<b>68 533 552</b>	<b>8 819 167</b>	-	<b>832 900</b>	-	<b>(302 559)</b>	<b>9 349 509</b>	<b>59 184 044</b>

**KHAI-MA MUNICIPALITY**  
**NOTES ON THE FINANCIAL STATEMENTS FOR THE YEAR ENDED 30 JUNE 2011**

**15 PROPERTY, PLANT AND EQUIPMENT (Continued)**

	Cost									Accumulated Depreciation						Carrying Value
	Opening Balance	Transfers	Change in Accounting Policy	Additions	Revaluation	Write-off	Under Construction	Transfer to Inventory	Closing Balance	Opening Balance	Change in Accounting Policy	Additions	Revaluation	Write-off	Closing Balance	
<b>Total brought forward</b>	<b>59 548 602</b>		-	<b>735 049</b>	-	<b>(313 083)</b>	<b>8 576 492</b>	<b>(13 507)</b>	<b>68 533 552</b>	<b>8 819 167</b>	-	<b>832 900</b>	-	<b>(302 559)</b>	<b>9 349 509</b>	<b>59 184 044</b>
<b>Housing Rental Stock</b>																
Housing Rentals	-			-					-	-	-	-		-	-	-
Housing	-			-					-	-	-	-		-	-	-
	-		-	-	-	-	-	-	-	-	-	-	-	-	-	-
<b>Leased Assets</b>																
Office Equipment	114 399		-	99 990	-	(114 399)	-	-	99 990	110 586		11 666		(110 586)	11 666	88 324
	<b>114 399</b>		-	<b>99 990</b>	-	<b>(114 399)</b>	-	-	<b>99 990</b>	<b>110 586</b>	-	<b>11 666</b>	-	<b>(110 586)</b>	<b>11 666</b>	<b>88 324</b>
<b>Other Assets</b>																
Landfill Sites	2 673 267		-	-	-	(12 081)	-	-	2 661 186	762 805		380 773	-	(3 071)	1 140 508	1 520 678
Office Equipment	280 156		-	48 375	-	(10 702)	-	-	317 829	100 322		45 678	-	(6 544)	139 456	178 373
Furniture and Fittings	234 079		-	22 851	-	-	-	-	256 931	66 116		21 182	-	-	87 297	169 633
Bins and Containers	224		-	54	-	-	-	-	278	96		37	-	-	133	145
Emergency equipment	10 207		-	-	-	-	-	-	10 207	4 391		1 454	-	-	5 845	4 362
Motor Vehicles	2 465 183		-	-	-	-	-	-	2 465 183	977 972		303 556	-	-	1 281 528	1 183 655
Plant and Equipment	396 861		-	97 804	-	-	-	-	494 665	147 220		53 819	-	-	201 039	293 625
Computer Equipment	200 658		-	173 229	-	(7 465)	-	-	366 423	3 455		41 882	-	(1 244)	44 093	322 330
	<b>6 260 634</b>		-	<b>342 314</b>	-	<b>(30 247)</b>	-	-	<b>6 572 701</b>	<b>2 062 377</b>	-	<b>848 382</b>	-	<b>(10 859)</b>	<b>2 899 900</b>	<b>3 672 801</b>
<b>Total Property, Plant and Equipment</b>	<b>65 923 635</b>		-	<b>1 177 352</b>	-	<b>(457 729)</b>	<b>8 576 492</b>	<b>(13 507)</b>	<b>75 206 243</b>	<b>10 992 130</b>	-	<b>1 692 947</b>	-	<b>(424 003)</b>	<b>12 261 074</b>	<b>62 945 169</b>

**KHAI-MA MUNICIPALITY**  
**NOTES ON THE FINANCIAL STATEMENTS FOR THE YEAR ENDED 30 JUNE 2011**

**15 PROPERTY, PLANT AND EQUIPMENT (Continued)**

	Cost/Revaluation									Accumulated Depreciation						Carrying Value
	Opening Balance	Transfers	Change in Accounting Policy	Additions	Revaluation	Write-off	Under Construction	Transfer to Inventory	Closing Balance	Opening Balance	Change in Accounting Policy	Additions	Revaluation	Write-off	Closing Balance	
<b>Land and Buildings</b>																
Land	24 430 195	(5 100)	2 453 244	-	-	-	-	-	26 878 339	-	-	-	-	-	-	26 878 339
Buildings	1 847 309	76 417	103 000	-	-	-	-	-	2 026 725	157 164	11 333	84 289	-	-	252 786	1 773 940
	<b>26 277 504</b>	<b>71 317</b>	<b>2 556 244</b>	<b>-</b>	<b>-</b>	<b>-</b>	<b>-</b>	<b>-</b>	<b>28 905 064</b>	<b>157 164</b>	<b>11 333</b>	<b>84 289</b>	<b>-</b>	<b>-</b>	<b>252 786</b>	<b>28 652 279</b>
<b>Infrastructure</b>																
Roads and Streets	2 879 401	-	(1 015 920)	-	-	-	477 641	-	2 341 122	1 114 904	(414 202)	87 490	-	-	788 192	1 552 929
Security Measures	20 121	-	-	-	-	-	-	-	20 121	9 157	(7 086)	3 693	-	-	5 763	14 358
Beach Improvements	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-
Sewerage Mains and Purification	3 481 399	-	-	93 225	-	-	1 355	-	3 575 980	825 992	(268 520)	161 121	-	-	718 593	2 857 387
Electricity mains	2 840 828	-	1 015 922	-	-	-	1 355	-	3 858 106	1 716 569	(759 304)	110 990	-	-	1 068 255	2 789 851
Electricity Peak Load equipment	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-
Water Mains & Purification	10 715 379	-	-	40 850	-	-	282 550	-	11 038 778	7 617 910	(3 154 451)	287 852	-	-	4 751 312	6 287 466
	<b>19 937 129</b>	<b>-</b>	<b>2</b>	<b>134 075</b>	<b>-</b>	<b>-</b>	<b>762 901</b>	<b>-</b>	<b>20 834 107</b>	<b>11 284 533</b>	<b>(4 603 563)</b>	<b>651 146</b>	<b>-</b>	<b>-</b>	<b>7 332 116</b>	<b>13 501 991</b>
<b>Community Assets</b>																
Libraries	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-
Recreation Grounds	6 337 635	5 100	-	-	-	-	-	-	6 342 735	428 576	-	138 998	-	-	567 573	5 775 161
Fire, Safety and Emergency	-	-	-	59 222	-	-	-	-	59 222	-	-	2 903	-	-	2 903	56 319
Care Centre	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-
Clinics and Hospitals	3 288 983	(76 417)	-	194 907	-	-	-	-	3 407 474	545 606	-	118 183	-	-	663 790	2 743 684
Community Centres	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-
Public Conveniences	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-
	<b>9 626 618</b>	<b>(71 317)</b>	<b>-</b>	<b>254 129</b>	<b>-</b>	<b>-</b>	<b>-</b>	<b>-</b>	<b>9 809 431</b>	<b>974 182</b>	<b>-</b>	<b>260 083</b>	<b>-</b>	<b>-</b>	<b>1 234 266</b>	<b>8 575 165</b>
<b>Heritage Assets</b>																
Historical Buildings	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-
Painting & Art Galleries	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-
	<b>-</b>	<b>-</b>	<b>-</b>	<b>-</b>	<b>-</b>	<b>-</b>	<b>-</b>	<b>-</b>	<b>-</b>	<b>-</b>	<b>-</b>	<b>-</b>	<b>-</b>	<b>-</b>	<b>-</b>	<b>-</b>
<b>Total carried forward</b>	<b>55 841 251</b>	<b>0</b>	<b>2 556 246</b>	<b>388 205</b>	<b>-</b>	<b>-</b>	<b>762 901</b>	<b>-</b>	<b>59 548 602</b>	<b>12 415 879</b>	<b>(4 592 230)</b>	<b>995 518</b>	<b>-</b>	<b>-</b>	<b>8 819 167</b>	<b>50 729 435</b>

**KHAI-MA MUNICIPALITY**  
**NOTES ON THE FINANCIAL STATEMENTS FOR THE YEAR ENDED 30 JUNE 2011**

**15 PROPERTY, PLANT AND EQUIPMENT (Continued)**

	Cost									Accumulated Depreciation						Carrying Value
	Opening Balance	Transfers	Change in Accounting Policy	Additions	Revaluation	Write-off	Under Construction	Transfer to Inventory	Closing Balance	Opening Balance	Change in Accounting Policy	Additions	Revaluation	Write-off	Closing Balance	
<b>Total brought forward</b>	<b>55 841 251</b>	<b>0</b>	<b>2 556 246</b>	<b>388 205</b>	-	-	<b>762 901</b>	-	<b>59 548 602</b>	<b>12 415 879</b>	<b>(4 592 230)</b>	<b>995 518</b>	-	-	<b>8 819 167</b>	<b>50 729 435</b>
<b>Housing Rental Stock</b>																
Housing Rentals	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-
Housing	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-
	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-
<b>Leased Assets</b>																
Office Equipment	114 399	-	-	-	-	-	-	-	114 399	87 706	-	22 880	-	-	110 586	3 813
	<b>114 399</b>	<b>-</b>	<b>-</b>	<b>-</b>	<b>-</b>	<b>-</b>	<b>-</b>	<b>-</b>	<b>114 399</b>	<b>87 706</b>	<b>-</b>	<b>22 880</b>	<b>-</b>	<b>-</b>	<b>110 586</b>	<b>3 813</b>
<b>Other Assets</b>																
Landfill Sites	12 081	-	2 661 186	-	-	-	-	-	2 673 267	1 863	760 339	604	-	-	762 805	1 910 462
Office Equipment	235 739	-	-	44 417	-	-	-	-	280 156	62 488	-	37 834	-	-	100 322	179 834
Furniture and Fittings	241 259	-	-	-	-	(7 180)	-	-	234 079	52 768	-	20 392	-	(7 045)	66 116	167 964
Bins and Containers	224	-	-	-	-	-	-	-	224	64	-	32	-	-	96	128
Emergency equipment	10 207	-	-	-	-	-	-	-	10 207	2 937	-	1 454	-	-	4 391	5 816
Motor Vehicles	2 465 183	-	-	-	-	-	-	-	2 465 183	674 415	-	303 556	-	-	977 972	1 487 211
Plant and Equipment	383 887	-	-	12 974	-	-	-	-	396 861	106 416	(7 923)	48 727	-	-	147 220	249 640
Computer Equipment	-	-	-	200 658	-	-	-	-	200 658	-	-	3 455	-	-	3 455	197 203
	<b>3 348 580</b>	<b>-</b>	<b>2 661 186</b>	<b>258 049</b>	<b>-</b>	<b>(7 180)</b>	<b>-</b>	<b>-</b>	<b>6 260 634</b>	<b>900 951</b>	<b>752 416</b>	<b>416 055</b>	<b>-</b>	<b>(7 045)</b>	<b>2 062 377</b>	<b>4 198 258</b>
<b>Total Property, Plant and Equipment</b>	<b>59 304 229</b>	<b>0</b>	<b>5 217 432</b>	<b>646 253</b>	<b>-</b>	<b>(7 180)</b>	<b>762 901</b>	<b>-</b>	<b>65 923 635</b>	<b>13 404 535</b>	<b>(3 839 814)</b>	<b>1 434 453</b>	<b>-</b>	<b>(7 045)</b>	<b>10 992 130</b>	<b>54 931 506</b>

**KHAI-MA MUNICIPALITY**  
**NOTES ON THE FINANCIAL STATEMENTS FOR THE YEAR ENDED 30 JUNE 2011**

**15 PROPERTY, PLANT AND EQUIPMENT (Continued)**

The leased property, plant and equipment is secured as set out in Note 5.

Land and Buildings were revalued on 1 July 2008 by an independent valuer, Vuladata. Fair values were determined by reference to observable prices in the active market or recent market transactions on arm's length transactions.

The book value of Property, Plant and Equipment would have been R57,994,298 on 30 June 2011, if no revaluation took place.

Refer to Appendix B for more detail on property, plant and equipment, including those in the course of construction.

The municipality opted to take advantage of the transitional provisions as contained in Directive 4 of the Accounting Standards Board, issued in March 2009. The municipality did not measure all the Property, Plant and Equipment in accordance with the standard, including the following:

Land;

Property, Plant and Equipment financed by way of finance leases;

Property, Plant and Equipment financed by way of provisions;

Property, Plant and Equipment transferred as a result of the transfer of functions; and

Componentised infrastructure assets.

The municipality is currently in a process of identifying all Property, Plant and Equipment and have it valued in terms of GRAP 17 and it is expected that this process will be completed for inclusion in the 2012 financial statements. The Municipality is in the process of itemizing all infrastructure and community assets and will recalculate accumulated depreciation once this exercise has been completed by 30 June 2012. At present depreciation on these assets is calculated on an averaging basis whereby an average useful life has been estimated for each category of infrastructure and community assets, using global historical costs recorded in the accounting records.

The municipality did not measure the following, in terms of the transitional provisions:

- Review of useful life of item of PPE recognised in the annual financial statements.
- Review of the depreciation method applied to PPE recognised in the annual financial statements.
- Review of residual values of item of PPE recognised in the annual financial statements.



**APPENDIX A**  
**KHAI-MA MUNICIPALITY**  
**SCHEDULE OF EXTERNAL LOANS AS AT 30 JUNE 2011**

EXTERNAL LOANS	Rate	Loan Number	Redeemable	Balance at 30 JUNE 2010	Received during the period	Redeemed written off during the period	Balance at 30 JUNE 2011	Carrying Value of Property, Plant & Equipment	Other Costs in accordance with the MFMA
<b>LONG-TERM LOANS</b>									
Stock Loan				-	-	-	-	-	-
<b>Total Long-term Loans</b>				-	-	-	-	-	-
<b>ANNUITY LOANS</b>									
Administration/Finance Loan				-	-	-	-	-	-
ABSA	14.00%	SR Pofadder	30/06/2012	41 014	-	19 123	21 892	-	-
DBSA	5.00%	NC102355.1.	29/02/2012	921 952	-	543 958	377 994	-	-
<b>Total Annuity Loans</b>				<b>962 966</b>	-	<b>563 081</b>	<b>399 885</b>	-	-
<b>GOVERNMENT LOANS</b>									
Other				-	-	-	-	-	-
<b>Total Government Loans</b>				-	-	-	-	-	-
<b>LEASE LIABILITY</b>									
Capitalised Lease Liability	10.72%	MP 2851 Copier	2010/12/01	-	59 995	5 466	54 529	52 996	-
Capitalised Lease Liability	11.02%	MP 2000 Copier	2010/12/01	-	39 995	3 617	36 378	35 329	-
AOT FINANCE	7.46%	GESTETNER DMS622	2010/10/31	9 019	-	9 019	-	-	-
<b>Total Lease Liabilities</b>				<b>9 019</b>	<b>99 990</b>	<b>18 102</b>	<b>90 907</b>	<b>88 325</b>	-
<b>TOTAL EXTERNAL LOANS</b>				<b>971 985</b>	<b>99 990</b>	<b>581 183</b>	<b>490 792</b>	<b>88 325</b>	-

**APPENDIX B**  
**KHAI-MA MUNICIPALITY**  
**SEGMENTAL ANALYSIS OF PROPERTY, PLANT AND EQUIPMENT AS AT 30 JUNE 2011**  
**GENERAL FINANCE STATISTICS CLASSIFICATION**

	Cost/Revaluation							Accumulated Depreciation						Carrying Value
	Opening Balance	Change in Accounting Policy	Additions	Revaluation	Under Construction	Write-off	Closing Balance	Opening Balance	Change in Accounting Policy	Additions	Disposals	Write-off	Closing Balance	
Executive & Council	1 064 298	-	352 705	-	-	(132 565)	1 284 439	359 553	-	145 102	-	(118 374)	386 282	898 157
Budget & Treasury Office	-	-	-	-	-	-	-	-	-	-	-	-	-	-
Corporate Services	24 456 919	2 556 244	-	-	-	-	27 013 163	12 026	-	1 336	-	-	13 362	26 999 801
Planning & Development	-	-	-	-	-	-	-	-	-	-	-	-	-	-
Health	-	-	-	-	-	-	-	-	-	-	-	-	-	-
Community & Social Services	7 451 287	-	235 134	-	294 580	-	7 981 002	1 604 776	4 247	522 713	-	-	2 131 736	5 849 266
Housing	-	-	-	-	-	-	-	-	-	-	-	-	-	-
Public Safety	-	-	-	-	-	-	-	-	-	-	-	-	-	-
Sport & Recreation	6 416 635	-	44 341	-	-	-	6 460 976	572 328	-	141 119	-	-	713 447	5 747 529
Environmental Protection	-	-	-	-	-	-	-	-	-	-	-	-	-	-
Waste Management	116 468	2 661 186	-	-	-	(27 703)	2 749 951	41 527	752 416	387 878	-	(8 168)	1 173 652	1 576 298
Waste Water Management	3 890 837	0	-	-	40 111	(295 000)	3 635 947	1 290 718	(268 520)	74 845	-	(295 000)	802 043	2 833 905
Road Transport	3 370 015	(1 015 920)	510 289	-	146 160	(14 290)	2 996 254	1 202 827	(414 202)	99 023	-	(784)	886 864	2 109 390
Water	11 090 261	0	34 883	-	8 055 530	(1 677)	19 178 996	7 910 543	(3 154 451)	239 822	-	(1 677)	4 994 237	14 184 759
Electricity	2 849 483	1 015 922	-	-	40 111	-	3 905 515	1 837 647	(759 304)	81 109	-	-	1 159 451	2 746 064
	<b>60 706 203</b>	<b>5 217 432</b>	<b>1 177 352</b>	<b>-</b>	<b>8 576 492</b>	<b>(471 236)</b>	<b>75 206 243</b>	<b>14 831 944</b>	<b>(3 839 814)</b>	<b>1 692 947</b>		<b>(424 003)</b>	<b>12 261 074</b>	<b>62 945 169</b>

**APPENDIX C**  
**KHAI-MA MUNICIPALITY**  
**DISCLOSURES OF GRANTS AND SUBSIDIES IN TERMS OF SECTION 123 OF MFMA, 56 OF 2003**

Grant Description	Balance 1 JULY 2010	Correction of error	Restated balance 1 JULY 2010	Contributions during the year	Interest on Investments	Trade Receivables	Operating Expenditure during the year Transferred to Revenue	Capital Expenditure during the year Transferred to Revenue	VAT Recognised as Income	Repaid to NT	Balance 30 JUNE 2011
	R	R	R	R	R	R	R	R	R	R	R
<b>TRUST FUNDS</b>											
DWAF ( Donorfunds)	-		-	26 463	-		-	23 213	3 250		-0
Namakwa Distriks Munisipaliteit- Repair of Pumps	-		-	-	-		-	160 442	19 664	-	64 318
Department of Housing and Local Government-Operating	244 425		244 425	-	-		-	297 982			404 685
Namakwa District Municipality - Job Creation	-		-	651 469	-	-250 000	198 801	510 289			452
Namakwa District Municipality - Capital	510 741		510 741	-	-		-				-
DPLG - Equitable share	-		-	9 566 229	-		9 566 229				-
Finance Management Grant	628 502		628 502	3 000 000	-		2 438 625	120 309	16 843	-628 502	424 223
Municipal System Improvement Grant	629 941		629 941	750 000	-		60 935	63 859	8 940	-629 941	616 265
Department Sport Arts and Culture - Library Development	159 724		159 724	320 000	-		206 959	95 257	7 854	-159 724	9 931
Provincial Infrastructure Grant	6 750		6 750	-	-		-				6 750
Munisipal Infrastructure Grant- National	6 633 471		6 633 471	6 301 000	-		52 000	7 209 361	996 847	-	4 676 263
COHSTRA: Project NALA	-		-	300 000	-		7 390	106 050	10 471	-	176 089
Department Environmental Affairs and Conservation	41 764		41 764	-	-		-				41 764
Department of Housing and Local Government - Housing	5 115		5 115	7 555 093	-		7 815 540				-255 332
LGSETA	24 751		24 751	-	-		-				24 751
DPLG - EPWP	-		-	197 036	-		263 871	14 508	-		-81 343
DBSA Grant	-		-	-	-		-				-
Namakwa Diamond Fund Trust	9 181		9 181	-	-		-				9 181
<b>Total</b>	<b>8 894 364</b>	<b>-</b>	<b>8 894 364</b>	<b>28 667 290</b>	<b>-</b>	<b>(250 000)</b>	<b>20 610 350.37</b>	<b>8 601 269.87</b>	<b>1 063 868.36</b>	<b>-1 418 166.57</b>	<b>6 117 999</b>
<b>PUBLIC CONTRIBUTIONS</b>											
Black Mountain - Vedanta	-		-	265 511	-	-	41 995	218 386	5 129	-	0
	-		-	-	-	-	-	-	-	-	-
	-	-	-	265 511	-	-	41 995	218 386	5 129	-	0